Austria Sch22	Indonesia Rp3100	Portugal Esc100
Bahrain Din0.650	Israel IS3.50	S.Arabia Rls6.00
Belgium BFr48	Italy L1600	Singapore S$4.10
Canada C$1.00	Japan Y600	Spain Pta125
Cyprus C£0.75	Jordan Fils500	Sri Lanka Rup30
Denmark Dkr9.00	Kuwait Fils500	Sweden SKr6.00
Egypt E£2.25	Lebanon £L125.00	Switzerland SFr2.20
Finland Fmk7.00	Luxembourg LFr48	Taiwan NT$65
France FFr6.50	Malaysia Rm4.25	Thailand Bht50
Germany DM2.20	Mexico Peo300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong HK$12	Netherlands Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr8.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,368 — Wednesday October 21 1987 — D 8523 A

The Gulf: Iran's threats make neighbours more nervous, Page 26

New York soars record 5.9% ● London falls 12.2% ● Tokyo falls 14.9% ● Sydney falls 24.9% ● Hong Kong closed

World markets swing wildly despite Fed intervention

BY ANATOLE KALETSKY IN NEW YORK AND JANET BUSH IN LONDON

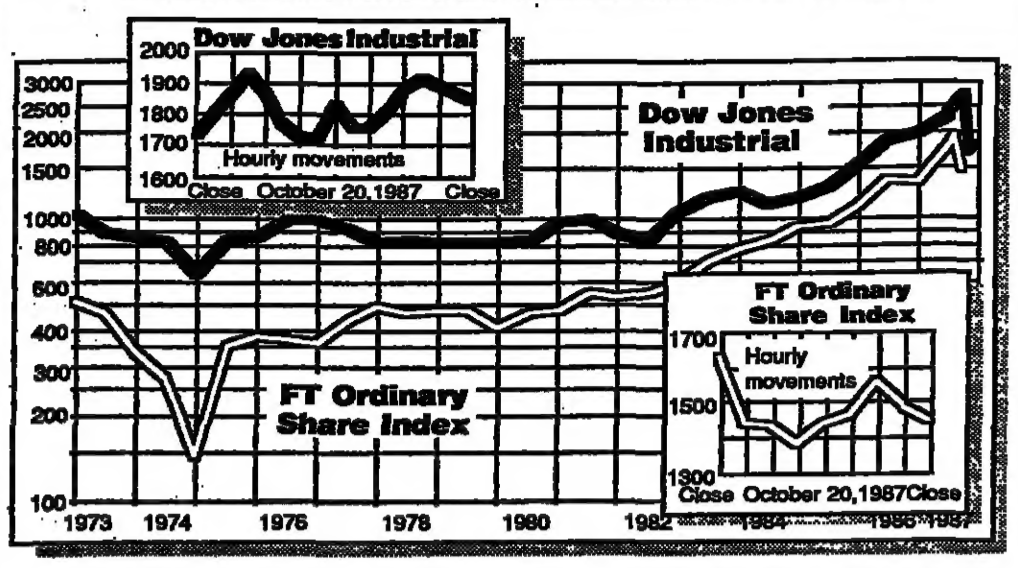
WORLD FINANCIAL markets swung wildly yesterday, despite almost unprecedented attempts by the US Federal Reserve Board to calm traders' panic.

Wall Street last night rebounded strongly after its disastrous string of losses with the Dow Jones Industrial Average closing unofficially at 1841.01, up 102.27.

Although the market's rally of 5.9 per cent easily eclipsed the previous post-War record of 5.1 per cent set in May 1970, the jubilation was muted on Wall Street as shell-shocked traders staggered home after one of the most vicious days of whiplash volatility the market had ever seen.

In London, the broadly-based FT-SE 100 index closed a record 250.7 points lower after one of the most volatile days in living memory. Together with Monday's 249.6 plunge, the London stock market has fallen 21.7 per cent this week.

What turned the Wall Street gain into a pyrrhic victory for many traders and investors was the gut-wrenching roller-coaster action in the market, which started with a virtually explosive rally that took the Dow more than 200 points up in less than an hour.



The trading volume, at 604.34m shares was slightly above the record set on Monday and almost double the number of shares changing hands on the previous busiest day.

Probably the most important factor moving stock prices higher were almost unprecedented efforts by the US Federal Reserve Board to calm the help the market rally with big cuts in interest rates across the whole spectrum of financial instruments from Federal funds to the Treasury's long bond.

Shortly before the market opened Mr Alan Greenspan, the Fed's chairman, issued an extraordinary public statement, assuring the markets that it was ready to pump money into the US economy to stop the Wall Street rout.

"The Federal Reserve, consistent with its responsibilities as the nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system," he said.

His statement, combined with signs of massive money market intervention and a surprising strengthening of the dollar, sent US bond prices soaring by around five points before the equity market opened. This laid the foundation for the stupendous early rebound by blue-chip US stocks.

By late afternoon the Treasury long bond was up $2 3/26 at $94½, a level at which it yielded 9.466 per cent. This long-term interest rate was almost a full percentage point below the peak hit on Monday. Meanwhile the Federal Funds rate which determines money market conditions was pushed aggressively downwards by Fed intervention, settling by lunchtime at 6¾ per cent compared with 7⅝ per cent the previous night.

Equities in Europe and the US were whiplashed by soaring and collapsing prices for equi-

Continued on Page 26

Limited success for moves to restore calm

BY OUR ECONOMICS AND FOREIGN STAFF

THE WORLD'S leading finance ministers and central bankers yesterday launched a determined and co-ordinated attempt to calm the panic on major stock markets, but met with only limited success.

● Turmoil in financial markets, Pages 2, 3 ● Editorial comment, Page 24 ● Nightmares past and present, Page 24 ● Implications for UK man in street, Page 25 ● Lex, Page 26 ● Base metal prices fall on back of equities, Page 38 ● London report, Page 46 ● World markets Page 50 ● Vulnerability exposed, Page 50

In a barrage of official statements, they sought to underline their commitment to continued economic co-operation and to reassure the markets that central banks would stand behind their financial institutions. The statements followed a series of top-level telephone conversations between ministers and central banks over the previous 24 hours.

Mr Alan Greenspan, chairman of the US Federal Reserve, moved to allay concerns that a restrictive US monetary policy could exacerbate the crisis by announcing that the central bank was ready "to serve as a source of liquidity to support the economic and financial system". New York dealers reported that the Fed was injecting funds into the money markets.

West Germany, which on Monday evening patched up the quarrel with the US which had helped to spark the markets' slide, announced a small cut in its interest rates and reaffirmed its absolute commitment to February's Louvre accord.

Mr James Baker, the US Treasury Secretary, cut short a visit to Europe to return to Washington after speaking by telephone to a number of other finance ministers, while Mr Greenspan returned from Texas to Washington.

The flurry of statements brought immediate gains for the dollar on foreign exchange markets, but its initial favourable impact on stock markets was obscured by the subsequent violent swings in both London and New York.

There were indications that the Group of Seven industrial nations - the US, Japan, West Germany, France, Britain, Canada and Italy - had agreed informally that each would act to ensure that there was sufficient liquidity in their financial markets.

Continued on Page 26

A touch of biblical joy amid the City's bewilderment

BY MARTIN DICKSON IN LONDON

RELAXED, contented people were thin on the ground in the City of London yesterday but one of them was Mr Stuart Wheeler.

At 1.30 pm he could be observed at the symbolic heart of the City - standing on the steps of the Royal Exchange building, home of the London International Financial Futures Exchange, with the Bank of England to his right and the Stock Exchange tower behind.

Attired in pinstripe suit, navy overcoat and a somewhat anachronistic bowler hat, Mr Wheeler looked out through the suitably dismal drizzle, past newspaper placards screaming "City crash - massive rush to sell" with a beatific smile on his face.

For Mr Wheeler is a Christian lay preacher, who has been trying for the past 11 years to persuade the City money-grubbers to see the light. The past two days may have been bad business for them, but not for him.

Yesterday he was pointing anyone who cared to ask to two biblical passages: One Timothy, chapter 6 ("The love of money is the root of all evil") and Proverbs chapter 10, verse 21 ("The blessing of the Lord, it maketh rich, and he addeth no sorrow with it."

But there was sorrow and numbed bewilderment aplenty in the City yesterday as traders tried to come to grips with a second day of unprecedented falling markets. Yesterday, however, was probably even more difficult to handle than Monday, when for most of the time the market had been moving one way. Yesterday saw extraordinary gyrations upwards and downwards: at noon, the FT-SE 100 index was down 304.1. By 3pm it was a mere 67.3 points down, yet by the close it had slumped again, to close down 250.7.

The conditions required very strong nerves and quick reflexes among market-makers.

Many others, however, seemed far more equable. Mr Michael Sergeant, of Warburg Securities, said he had never seen the group's trading floor as busy as yesterday, partly because of the volatility of the market and partly because there was better two-way buying and selling of shares than on Monday.

"There's never been a day like it," he added, " but people have coped pretty well. The human being is a very resilient animal."

France agrees to write off FFr12bn of Renault debt

BY PAUL BETTS IN PARIS

THE FRENCH Government has agreed to write off about FFr12bn ($2.02bn) of Renault debt as part of a long-awaited compromise solution to restructure the finances of the state-owned car group.

However, the Government has decided not to grant Renault a large injection of state funds to bolster its balance sheet, which is currently showing a negative group net worth of FFr9bn.

Mr Alain Madelin, the Industry Minister, said yesterday that Renault would not be allowed to set its accumulated losses of the last *few* years - totalling about FFr27bn - against tax on future profits. The group is now expected to report net earnings of between FFr2bn and FFr3bn this year, after several years of huge losses.

Although Mr Madelin claimed that the controversial issue of Renault's balance sheet restructuring had now been resolved, there may still be some opposition from the group's main competitors.

The European Commission and the private Peugeot-Citroen car group, Renault's main domestic rival, have both been worried by the Government's earlier Renault recapitalisation proposals, fearing that they risked seriously distorting competition in the car market.

Mr Madelin argued yesterday that the compromise, which is expected to be adopted by the cabinet soon, would guarantee and enhance competition.

The Government now plans to introduce legislation to change the special status of Renault as a *"regie"*, or privileged state group, and turn it into what Mr Madelin said would be an "ordinary company". As a *regie* Renault benefited from what has been tantamount to a blank cheque from the Government since the company, despite its huge losses and debts, was protected by its status from bankruptcy.

Before the Government can change Renault's legal status, it must first restore its balance sheet to the black. Originally, the authorities are understood *to have envisaged making* a major capital injection of about FFr10bn to cover the company's needs.

But this provoked an angry reaction from Peugeot whose chairman, Mr Jacques Calvet, threatened to resign if the Government went ahead with an operation which he felt would severly distort competition and undermine his company.

The Government now appears to have bowed to the pressures from Peugeot and the EC by proposing a compromise which will not involve any state cash for Renault.

Mr Madelin also said that to allay any remaining EC worries, the Government would pledge not to grant any further financial support once Renault's status had been changed.

He said that the agreement would help competition since Renault would now be placed on an equal footing with other car groups. He added that the balance sheet restructuring would have no favourable impact on Renault's operating results.

Indeed, the debts the Government intends to write-off involve loans at very low interest rates advanced by the state.

Renault currently has debts *totalling* more than FFr50bn. This will mean that the write-off will not have a major impact on its annual debt servicing charges, although it will help restore the company's net worth.

The Government, and Mr Madelin especially, has been anxious to resolve Renault's problems before next spring's parliamentary elections

Captain pilots a tight ship through eye of the storm

By Roderick Oram in New York

MR ALAN GREENBERG, who demands a tight ship, was at his command post at Bear Stearns yesterday morning, just like any other day. Except it was not.

He may be chairman of a leading Wall Street firm but he is a clenched hands-on executive. He always spends most of his day leading the firm's equity trading from his desk on the trading floor.

How did it feel to navigate his firm through the world's shattered financial markets?

"I feel fine. I feel like I always do. It's work," he said. Clues to the mood abounded. Outside, *the day was gloomy and overcast*. Little could be seen through a battered old brass telescope from the Queen Mary down 50 floors from Bear Stearns to the Brooklyn Bridge below.

A lighted display case corralled a motley collection of bulls. But was it unlucky there were 13?

Apparently not. One was a small replica of the famous New York Stock Exchange statue of the bull locked in combat with the bear cast to mark the day Bear Stearns went public on October 29 1985, 56 years and one day after the great bear ushered in the Depression.

Bear Stearns is a firm of gut traders with no time for such luxurious musing. The symbol for them is the Queen Mary's brass engine room telegraph and compass pinnacle just off the lobby. They are locked on full steam and a westerly course.

The traders used to ring the bell in the trading room when they crossed huge block trades. Now it is silent. The unusual became the ordinary, just as a 500 point downward move is now within everyone's compass.

Energy and concentration levels were again intense yesterday, but utter professionalism and a somewhat studied insouciance prevailed.

However, everyone was willing to admit the enormous strains the market's collapse and faint attempt at recovery had placed on people and systems. But both have survived so far.

Bear Stearns has probably the largest settlement system in the US brokerage industry. On Monday it handled some 5 per cent of the NYSE's record 604m share volume. Mr Einbender, who developed the system for Bear Stearns, stayed in the office until early evening. Other people in the operations department stayed until midnight,

Continued on Page 26

World News

US 'ready for any Iranian response'

The US firmly denied it was being pushed towards a war with Iran but said it was prepared for any Iranian response to Monday's American attack on two Iranian oil platforms in the Gulf.

Tension in the waterway remained high as Iran repeated a threat to retaliate. The Soviet Union said Moscow and Tehran had provisionally agreed to hold talks on a possible exchange of Iranian crude for refined Soviet oil products. Page 26

World reactor plan

The EC, Soviet Union, US and Japan agreed to collaborate on designing an experimental thermonuclear reactor. Work will begin early next year at Garching, near Munich. Page 4

EC radiation deadlock

The question of what constitutes a safe level of radiation in foodstuffs in the wake of another nuclear accident left the European Community in deadlock and facing the prospect of a legal vacuum. Page 4

China may axe elders

The Chinese Communist Party began a series of high-level meetings that could see the passing of a generation of elderly leaders. Page 26

Airliners grounded

Italian state airline Alitalia, and the country's Ministry of Transport, grounded all eight versions of the Franco-Italian Atr 42 commuter aircraft operated by national companies, following a crash on Thursday in which 37 people died. Page 4

Energy rationed

Bulgaria introduced energy rationing as part of a programme to keep the country's industry working at full capacity over the winter months. Page 4

Doubts over Sarney

Doubts over President Jose Sarney's ability to form a coherent Brazilian "national unity" government increased after an announcement of ministerial changes was delayed for 48 hours. Page 6

Belgians swap insults

Belgium's coalition partners held talks to form a coalition government but members of the outgoing administration traded insults over who was responsible for a political crisis sparked by a language row.

US jet hits hotel

A US Air Force jet fighter tore the roof off a bank and exploded in flames in the lobby of a hotel at Indianapolis airport, killing at least nine people. Up to 25 people are missing.

Aquino on warpath

Philippines President Corazon Aquino declared war on her military and industrial enemies and promised a new order of tough and decisive rule. Debt pledge, Page 26

Lebanon school strike

About 60,000 teachers seeking better wages launched an indefinite strike throughout Lebanon, closing 2,250 schools.

Delhi gunmen kill nine

Sikh separatists opened fire with automatic rifles in running attacks on several south Delhi neighbourhoods yesterday, killing at least nine people and injuring 15 others.

East German amnesty

East Germany will release up to 40,000 people convicted on political and other charges under terms of a previously announced amnesty program, a West German official said yesterday in Berlin.

Comrade's complaint

The chairman of a Soviet collective farm went on hunger strike in protest against his dismissal Page 26

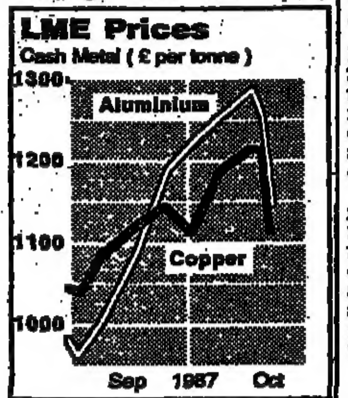
Business Summary

Icahn pulls out of offer for shares in TWA

CARL ICAHN, chairman of Trans World Airlines, has withdrawn his proposal to acquire the TWA shares he does not already own because of the deterioration in market conditions. Page 27

SEARS, ROEBUCK, largest US retailing group, posted record third-quarter earnings of $409m, or $1.09 a share, and said it remained optimistic about the fourth quarter and year ahead. Page 27

COPPER AND ALUMINIUM prices fell sharply in heavy trading on the London Metals Exchange amid turmoil in



world stock markets. Cash copper fell £102 to close at £1,113.5 a tonne with cash standard aluminium down £107 at £1147.5. Commodities, Page 38

CITICORP, largest US banking group, reported a sharp increase in third quarter earnings, though much of the gain resulted from exceptional items. The group still expects to make a total loss of $1bn this year because of the $3bn provision it made against Third World loans in May. Page 27

ERICSSON, Swedish telecommunications and electronics concern, is selling its office equipment operations as part of the continuing retrenchment of its loss-making information systems division. Page 27

GOLD fell $15.50 on the London bullion market to $466.00. In Zurich it fell $16.50 to close at $466.00. Page 38

DOLLAR closed in New York at DM1.8195, Y142.95, SFr1.5030 and FFr6.0425. It rose in London to DM1.8080 (DM1.7770); to Y143.30 (Y141.70); to SFr1.5005 (SFr1.4760); and to FFr6.0375 (FFr5.9375). On Bank of England figures the dollar's exchange rate index rose 0.17 to 100.8. Page 39

STERLING closed in New York at $1.6535. It fell in London to $1.6550 ($1.6605); but rose to DM2.9925 (DM2.9850); to Y238.25 (Y238.00); to SFr2.4825 (SFr2.48); and to FFr9.9925 (FFr9.9775). The pound's exchange rate index fell 0.3 to 73.4. Page 39

CATERPILLAR, largest US manufacturer, posted a rise in third quarter earnings to $146m or $1.47 a share from a net loss of $26m or 26 cents last year. Page 27

EQUITICORP HOLDINGS, New Zealand group headed by entrepreneur Mr Allan Hawkins, yesterday announced an agreed A$324m (US$234.9m) takeover of New Zealand Steel, which is 89 per cent owned by the Wellington Government. Page 28

DAIMLER BENZ of West Germany, GEC of the UK and Sweden's Wallenberg group, which controls the Ericsson telecommunications company, are expected to take stakes in the French defence and electronics group Matra, which is to be privatised next week. Page 27

SCHLUMBERGER, French-US oilfield services group, bounced back with a third quarter net income of $2m compared to a net loss of $42m or 14 cents per share in the same period last year. Page 27

The Financial Times today publishes a survey on Global Equities Markets. It was prepared before the recent declines in stock markets around the world. Although much of the survey deals with trends and issues which are not affected by these events, some of the comment on the performance of individual markets is clearly out of date. Section III.

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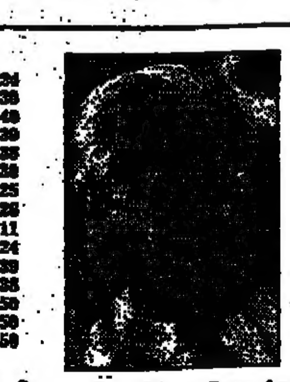


PEACE PLAN POSES IMPOSSIBLE CHOICE FOR HONDURAS

President Jose Azcona must now decide which camp he can dare to offend, Page 6

Stefan Wagstyl reports on the undisguised panic accompanying a fall nearly five times greater than the previous record

Frenzied inactivity takes hold of Tokyo's traders

THERE WAS no disguising the panic on the floor of the Tokyo Stock Exchange yesterday.

Traders with pockets full of sell orders were rushing around in a desperate search for purchasers. Anyone brave enough to buy was immediately surrounded by dozens of arms frantically waving hand signals. After each sporadic trade, hundreds of dealers in their white shirts and blue suits would burst into spontaneous applause - out of relief that a single trade had been done.

High above them stock screens showed how the collapse in prices which began last week on Wall Street had at last reached Tokyo with a vengeance. By the close, the Nikkei average of 225 leading stocks was down by 3,836.48 to 21,910.08 - a fall nearly five times greater than the previous record.

For most of the day, the traders were powerless. With no buyers to match the would-be sellers, the world's second largest stock market was a scene of frenzied inactivity. Only in the last two hours of the day did some buyers emerge. Even so, one third of leading stocks were not traded at all.

On the streets of Tokyo's financial district, passers-by crowded around stockbrokers' offices to watch the prices screens. The popular reaction was to blame the Americans. "People are selling because of Wall Street," said one middle-aged executive "It's not because of Japan."

The Finance Ministry, the Bank of Japan and leading financial institutions tried to maintain calm. Mr Kiichi Miyazawa, the Finance Minister, said there was nothing to worry about.

Mr Hajime Tamura, International Trade and Industry Minister, said the progress of international co-operation in economic policy co-ordination made a repetition of the Great Depression unlikely.

However, behind the scenes, the Finance Ministry tried desperately to restore some stability to the market, by informally asking the "Big Four" Japanese stockbrokers - Nomura, Daiwa, Nikko and Yamaichi - to mount a rescue. Some traders said the four bought a handful of heavy industrial stocks (among them Kobe Steel) in the afternoon, but they failed to stop the rot.

The impact of the Y57,400bn ($405bn) on-fall on Japanese investors will clearly hit speculative investors hardest. Both private individuals and corporations throughout the bull market have been involved in zaitech - that is, borrowing money in order to invest in stock and bonds.

The drastic consequences of taking too many risks were brought home in the summer by the affair of Tateho Chemical Industries, an Osaka-based chemicals company with net assets of Y16.5bn which lost Y28bn dealing in bond futures.

There were no signs yesterday of another corporate disaster. But Mr Noboru Gotoh, president of the Japan Chamber of Commerce and Industry, said yesterday's fall in prices was the result of "excessive money games."

The importance of credit in funding the stock market was underlined by a decision by Japan's eight stock exchanges (at the Finance Ministry's request) to ease credit controls on investors. The maximum level of borrowing on the security of stocks will be raised from today from 60 to 70 per cent of the value of the underlying collateral.

Stockbrokers and economists are convinced that the immediate course of the market will be fixed by Wall Street. There are no longer suggestions Tokyo can stand alone when other markets are falling

But, for the moment at least, most industrial companies, not to mention Japan's huge life assurance groups, insurance companies, and pension funds, are unlikely to be in any danger.

First, much of their investment - particularly overseas - has been in bonds, not in equities. Secondly, most investors have accumulated large unrealised gains in the stock market. The Tokyo market hit its peak as late as last Wednesday - yesterday's fall only puts the Nikkei average back to where it was last April.

Yesterday, the Long Term Credit Bank spoke for most institutional investors when it said it was not trying to sell but just "watching the market and waiting to see what would happen." There was a safe haven for funds yesterday in the bond market which performed strongly on reports that leading industrial nations were standing by agreements to maintain stable exchange and interest rates. The Bank of Japan endorsed statements made by Mr James Baker, the US Treasury Secretary, and Mr Gerhard Stoltenberg, the West German Finance Minister, after a meeting on Monday.

Nevertheless, the experience of the last few days will leave Japanese institutions wondering about the merits of diversifying their investments, especially abroad. A big push in 1985-86 into US Treasury bonds resulted in heavy losses when prices fell. Now a tentative expansion of investment in equities could well have hit some investors very hard.

One leading Japanese pension fund manager said last week that Japanese institutions were acutely aware of a relative lack of information about foreign markets. They are likely to be even more conscious of that need after the events of the past few days.

But, for the moment, investors minds are focused not on long-term strategy but on short-term tactics. Stockbrokers and economists in Tokyo are convinced that the immediate course of the market will be determined by Wall Street. There are no longer suggestions, as there were on Monday, that Tokyo can stand alone when other markets are falling - though it should said that Tokyo is only 17 per cent off its peak, against 37 per cent for New York.

Mr Ron Napier, an economist at Salomon Brothers, the US investment house, said: "If New York continues to sell then Tokyo will follow."

But some Japanese economists stressed there was no underlying reason why in the long-run the Tokyo market should not recover independently of New York. They said that continuing low inflation and strong domestic growth would underpin the growth of profits. While a slump in US demand would hit exporters, there was no reason yet to believe that the fall in the stock market would necessarily lead to a sudden decline in the real economy in the US, said the economists.

They argued that the Japanese economy had already proved to be remarkably resilient in the face of a decline in export growth as a result of the rise in the yen. In the current fiscal year the economy is expected to grow at a rate of 3.5 per cent - despite a 1 per cent decline in overseas demand. But other economists pointed out that Japan could not escape from the effects of future shocks in the US economy.

Mr Kazoaki Harada, managing director of Sanwa Research Institute, said that if Japanese investors stayed away from a $28bn offering of US Treasury stock, due next month, then there "could be another crash."

ELDERS CHIEF PROVIDES RARE BREAK IN STORM OF SELLING

Sydney mood darker after Black Monday

BY CHRIS SHERWELL IN SYDNEY

AFTER "BLACK Monday," which saw a record one-day point fall in the Australian market on the first day of the week, share market investors lacked a suitable colour to describe yesterday's plunge, which was more than six times as large.

Appropriately, Sydney's skies were leaden. Despite the soaking drizzle, scores of people gathered outside the stock exchange, staring transfixed at a mesmerising public screen which dutifully reported the relentless decline in every index.

Inside, pandemonium reigned as traders quickly marked prices down 20 per cent in line with Monday's Wall Street slump, only to find sellers still scrambling unsuccessfully for buyers. The decline was still going when business ended hours later.

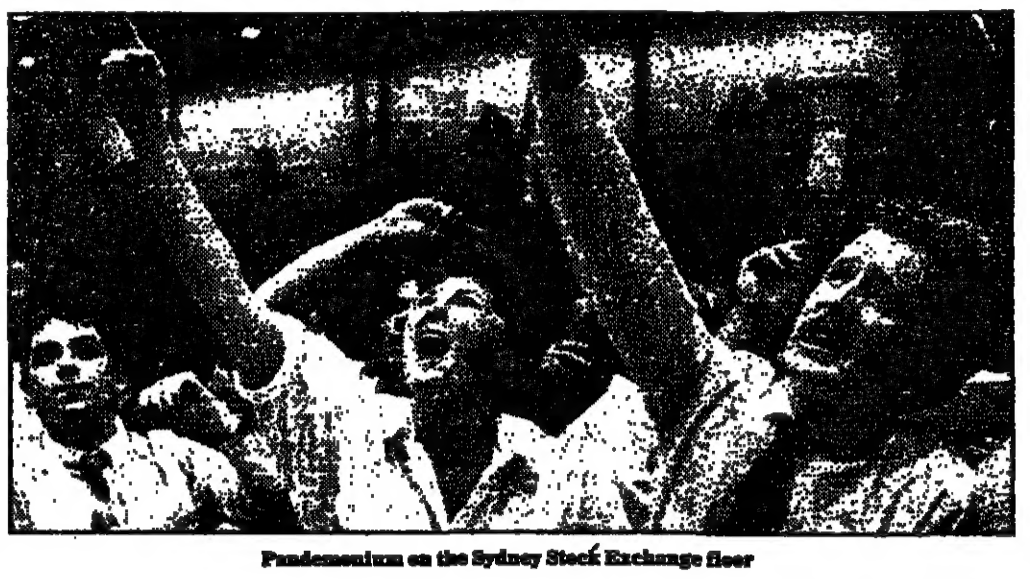
According to one analyst, the most vulnerable stocks were of companies headed by well-known entrepreneurs, with high gearing or with large US exposure. Financiers with corporate structures involving a large number of quoted companies - a common feature in Australia and New Zealand - were doubly vulnerable, he said.

The big sellers were reckoned to be mutual funds whose unit holders sought redemptions which prompted stock disposals, and futures players and other speculators who had borrowed their funds to buy stock and were now having to meet margin calls.

Buyers were few and far between, but two who declared themselves yesterday were Mr John Elliott, the head of Elders, who said the plunge offered shrewd investors a chance to make quick profits, and Mr Larry Adler, head of FAI Insurances, who said there were still solid reasons to invest in Australia.

On the positive side, Australia is undoubtedly helped by its fabulous resource base - although if the slump provokes a worldwide depression, demand may be slack. Its government has also taken some of the economic adjustment measures which are now needed in the US.

Whether these factors mean Australia can weather the storm, however, is another matter. Even old hands are experiencing something new, and yesterday few people were prepared to predict what would happen today, let alone in the coming year.



Pandemonium on the Sydney Stock Exchange floor

Classic speculative bubble bursts

By John Plender

What is it that can cause the world's main equity markets to lose more than a quarter of their value in less than a day and a half? Certainly nothing to do with economic fundamentals.

Last week's worse-than-expected US trade deficit figures and the attack by Mr James Baker, US Treasury Secretary, on West German economic policy undoubtedly had an unsettling effect on prices, which the subsequent hurried attempt to re-establish harmonious relations did little to diminish. But that scarcely explains a vertiginous 1929-style plunge. This week's events have all the hallmarks of a classic speculative bubble being pricked.

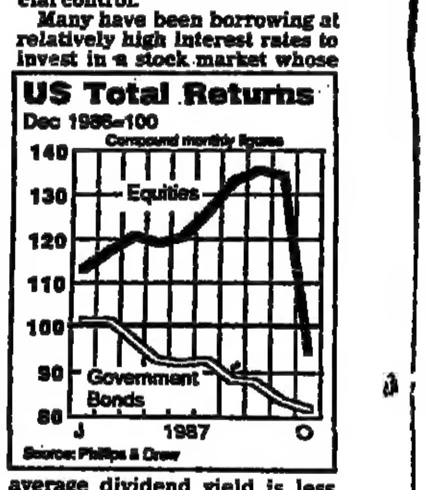
The characteristic signs of a bubble are to be found when investors cease to pay attention to the fundamentals and lay out money on the assumption that prices can only go up - an apt enough description of what has been happening in the larger markets around the world.

In the US, for example, much of the junk bond financing pioneered by Wall Street investment bankers has been provided to companies that are in no position to service the debt from their existing earnings; the implicit assumption is often that the debt will ultimately be repaid out of rising asset prices.

The phenomenon which best exemplifies the remoteness of Wall Street from economic fundamentals, however, is computerised program trading. Buying and selling orders, often involving interplay with the futures and options markets, are triggered on the basis of share price movements that breach pre-arranged market or share price levels. This computerised knee-jerking helps explain both the savage nature of the plunge on Wall Street and the sharpness of the rebound yesterday morning.

It is the Tokyo market that probably has the greatest claim to have lost touch with fundamentals. Even after the disastrous plunge yesterday NTT, the recently privatised telecommunications concern, was still valued at nearly three hundred times earnings. And the Japanese companies that practised Zaitech, the form of financial engineering that involves bolstering corporate earnings through stock market speculation, have not gone in for much fundamental analysis or financial control.

Many have been borrowing at relatively high interest rates to invest in a stock market whose



Source: Phillips & Drew

average dividend yield is less than half a per cent. In other words they can only service the debt through speculative dealing profits which have suddenly become elusive.

Deficit financing, as this practice is sometimes known, is also a characteristic of the activities of many Australian entrepreneurs who have been putting companies "into play" in foreign stock markets. Much of Australia's burgeoning external debt consists of private borrowing to finance speculative deals of this kind. The collateral for much of this debt will have been wiped out by the collapse in the markets. And in many cases the income on the related securities will be inadequate to cover interest costs.

Given the disproportionately large role played by the Australian dollar in the international financial markets in relation to the size of the domestic economy, the backwash of bankruptcies will be felt outside the home country.

How readily does the British bull market fit the definition of a speculative bubble? There is a strong case for suggesting that the kind of deficit financing that took place in the property market in Britain in the early 1970s is now being repeated in the securities industry.

According to the Government's Financial Statistics, total lending to the securities business between November 1986 and May 1987 went up by a third to £16.8bn - at a time when new entrants and new capital were coming into the sector on a massive scale.

In other words borrowings were escalating at just the moment when the industry's profits were coming under unprecedented pressure. It is a fair bet that the figure has increased still further since May, because of the need to finance unsettled bargains while the securities firms sort out their back office administrative systems. Now the collateral for much of this borrowing has been squeezed, giving rise to fears about the solvency of at least one leading British-owned banking and securities conglomerate. It may be that financial control has become a victim of the rhetoric of Big Bang.

Share falls 'lunge out of clear sky'

By David Waller

"SPECULATORS were hurling themselves from windows; pedestrians picked their way delicately between the bodies of fallen financiers."

This was how John Kenneth Galbraith described the aftermath of Wall Street's collapse in his book The Great Crash. The book outlined the events of October 1929 when plunging share prices ushered in a decade of world recession.

So far, there have been no reports of Yuppies jumping out of New York windows even though Wall Street's fall on Monday far exceeded that of Black Thursday 1929 when the market fell 12.9 per cent and a further 11.7 per cent the next day.

Almost exactly 58 years later, the Dow Jones industrial average fell by 508.32 points, a one-day decline of 22.6 per cent. Only on December 12 1914 had Wall Street tumbled more in one trading session.

In London, shares also experienced a record decline as the FTSE 100 index fell by 249.6 points, falling by more than 11 per cent on Monday and by slightly more yesterday. By midday yesterday, the index had lost 304 points; by 3.30 it had pulled back to within 70 points of its opening level but then crashed again in response to a faltering Wall Street.

Sharp shock

Never has London experienced such a short, sharp shock. By contrast, the decline in 1973-74 was a long drawn-out affair against a background of political uncertainty, rising inflation and industrial turmoil.

Although the market fell by 7.1 per cent on March 1 1974 as a result of an election stalemate, it was not until the February of the following year that the market reached its nadir. It had taken two years for the FT industrial index to slip from 490 to its low point of 146.

Mr Kenneth Ingliss, head of research at stockbrokers Philips & Drew, then a novice whose "every investment turned to dust" recalled: "That was death by a thousand cuts. This is a single lunge out what appeared to be a clear blue sky."

Shun Tak tops world league of worst performing shares

BY CLAY HARRIS

SHAREHOLDERS in Shun Tak Enterprises have had a bumpier ride in the past week than any of the passengers in the hydrofoils the company operates between Hong Kong and Macao.

In fact, the 86.7 per cent fall in its share price, from HK$25.50 to HK$3.40, in the week to Monday appears to have gained Shun Tak the unwelcome distinction of being the world's worst performing share over the tempestuous seven days.

Trying to sort the biggest losers from the relative winners over the last five days throws up few distinct patterns, with special national factors dominating most markets - composite insurers, for example, leading London down with a 15 per cent decline in the wake of last week's storms.

Nevertheless, exposure to interest rates was one explanatory factor.

The relative certainty of dividend payments on electric utilities - and higher yields after previous falls in share prices - made them the third best performing US market sector as calculated by Standard & Poor's, with a loss of only 14.3 per cent in the five trading days to Monday.

Of the 800 largest US companies, only Potomac Electric, the utility serving the Washington DC area, showed a rise in its share price over the five days.

The move away from equities was underlined by the two best peforming US sectors, investment companies - mainly bond funds - which lost only 8 per cent and real estate investment companies, with an 11.6 per cent decline.

Shun Tak received the international wooden spoon for no more weighty reason than the deflation of recent speculative activity, but with a market capitalisation of less than HK$300m (US$38.9m) it was small fry in any case compared with the US losers which came next in line.

US Home, the largest US housebuilder, fell on the prospect of higher interest rates, while the idea that Wall Street job cuts and a bear market would depress demand for screen-based information services cut the Telerate share price by more than half.

For similar reasons, Reuters' 24.2 per cent loss put it firmly in the top 10 losers among large UK industrial companies.

The worst-performing US market sector as calculated by Standard & Poor's was leisure companies, which showed a 39.6 per cent fall, followed by a 36.9 per cent decline in miscellaneous financial groups such as American Express, and tyre and rubber companies, which lost 36.7 per cent.

Around the world, but especially in the US and UK, big winners were few and, frankly, anamalous. The joint top performers, San Diego-based motel group Northview in the US and the British property group New Cavendish Trust, were both the subject of takeover bids.

Of the other UK companies in the best performing 10, clothing retailer Gee/Rosen and brewer Greenall Whitley rose after disclosure of large share stakes and only Pochin's, the contractor and plant hire group, could point to the announcement of better than expected results. Its shares, however, are thinly traded.

And for a market which fell out of bed so conclusively, one could take some ironic satisfaction in the only two UK Datastream industrial groups which managed to advance in the week to Monday - furniture and bedding, and floor coverings.

It remains to be seen if the market is able to crawl back off the floor.

THIS WEEK'S BIGGEST LOSERS*

Share	Market	% Change
Shun Tak Ents	Hong Kong	-86.7
US Home	US	-62.2
Valley Inds	US	-60.0
Telerate	US	-55.7
Zayre	US	-51.0
Cooper Cos	US	-50.0
Trafalgar Housing	Hong Kong	-50.0
Dao Heng Ind	Hong Kong	-49.6
Zenith Labs	US	-49.1
Caesar's World	US	-48.4

THIS WEEK'S BIGGEST WINNERS

Share	Market	% Change
Northview Corp	US	+55.3
New Cavendish Trust	UK	+55.3
Struthers Wells	US	+50.0
Neuenberger	Switzerland	+45.6
Gee/Rosen Org	UK	+41.2
Phywe	West Germany	+40.0
Pochin's	UK	+38.5
Gajoen Kanko	Japan	+30.2
Dicomed	US	+29.0
Greenall Whitley A	UK	+24.1

Source: Datastream

*Week to Monday, except yesterday for Tokyo. (Data on US, UK, Japan, Hong Kong, West Germany, France, Switzerland, Netherlands)

Jury still out on programme trading

BY ALEXANDER NICOLL

DID COMPUTERS cause the crash? Or did they accelerate it? Or did they have no effect at all?

The New York Stock Exchange believes that computer-related investment strategies worsen the problem. Yesterday, it asked members not to use its order delivery system for arbitrage-related block trades or any other aspect of "programme trading" after the opening.

Since so-called "programme trading" became a common phenomenon in the US market more than two years ago, its critics have warned that it causes extreme volatility. Their worst nightmare appears at first sight to have been realised this week.

The evidence - tentative at this stage - does not, however, point the finger specifically at computer-generated orders and the various complex investment strategies which employ them.

Computer technology and improved telecommunications have changed the nature of world stock markets, bringing instant price and news information from around the world to the desks of every professional trader and investor. The responses to that data - sell or buy orders - may be more rapid, synchronised and international than they once were, and in this sense technology might appear to accelerate market movements.

When people talk of computer-generated orders, however, they are generally referring to strategies involving interplay between the stock markets and stock index futures and options. Though Britain has had a small and growing market in such arbitrage strategies, the business remains tiny by comparison with the US.

Analysts said simple stoploss selling was seen in the UK market on Monday, triggered by computers as prices fell. But arbitrage-related selling would have had a relatively insignificant effect even though the Stock Exchange's equity options market faces an expiry date today. There was no extraordinary surge in futures and options volume.

In the US, however, such strategies raise much more serious questions. "Programme trading" causes the sale or purchase of large baskets of stocks automatically triggered by computers.

Often, the orders represent arbitrage: the computer spots a gap between the price of a stock index future and the stock market, and makes opposite transactions in each to lock in a risk-free gain. This created the phenomenon of "triple witching hour" when huge volumes of futures contracts and shares were transacted in the last few minutes before the quarterly futures and options expiries, causing big and unpredictable swings up or down.

More recently, however, the big discepancies have been ironed out, arbitrage has become less profitable and the triple witching distortions have been ironed out.

Perhaps a more likely culprit is a newer technique, known as portfolio insurance. US investors have had more than $50bn of their portfolios protected through insurance schemes which allow them to hedge their portfolios against a decline in their portfolios' value below a certain level.

As stock prices fall, the computerised schemes typically trigger sales of stock index futures on a scale which will mean that the investor becomes totally hedged by the time the market falls to a pre-determined level. The investor hangs on to his stocks, but is protected from their decline.

On Monday, such schemes would have triggered many sell orders in the futures market, and this could have accelerated the fall.

Chicago halts index option trading

By Deborah Hargreaves in Chicago

THE CHICAGO Board Options Exchange halted trading in all index options in mid-morning yesterday, a lead soon follwed by other futures and options market authorities.

The CBOE's halt affects the Standard & Poor's 100 index options and S&P 500 index options. Under CBOE rules, at least 80 per cent of the underlying stocks must be trading for the options to trade, said Mr Charles Henry, president.

Mr Henry said the reason for the halt was because trading in many of the underlying stocks was stopped in New York.

Earlier, some optimism returned to Chicago's futures and options markets after Monday's carnage.

Risk-takers

"I think there's a realisation that it was overdone," said Mr John Downey, a market maker in the CBOE's S&P 100 option, which fell about 80 points on Monday.

However, Mr Downey stressed: "We're just trading, we have no idea where the market is going to go."

There were few risk-takers in Monday's market, he said, as traders tried to get their bearings on a wildly swinging market.

About 24 seats on Chicago's futures and options exchanges were sold on Monday as traders tried to recoup losses on plunging stock index contract values after Wall Street's crash.

Traders at the Chicago Mercantile Exchange and CBOE, dealing in such derivative stock market products as the S&P 500 stock index futures and the S&P 100 option, have suffered losses as both fell by record levels in Monday's markets.

Chicago's usually resilient futures traders were shell-shocked by Monday's moves.

Scramble

Bouts of frantic selling pushed the S&P 500 futures index down by a record number of points. But many local traders - those who trade for their own account - stood looking glum at the wild swings in the index.

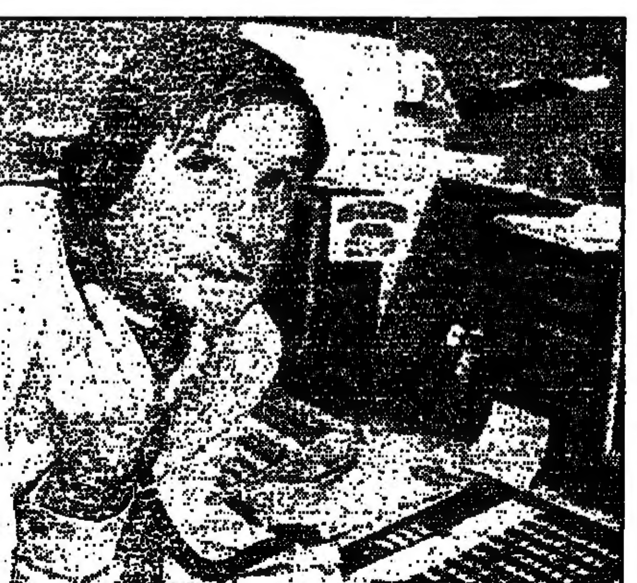
"A lot of people are too stunned to trade," one S&P 500 futures trader commented. "I can't see why any locals would risk being in there."

The CME called an unprecedented session in the middle of the night after Monday's market drop, from midnight to 3am, to match up trades overlooked in the scramble.

These out-trade sessions usually occur before the morning's market opens as all trades have to be matched before the next day's trading can begin.

Yuppy lifestyle may be ending

BY RICHARD WATERS



Learning quickly to live with falling markets: Ian Marsh in the dealing room of Philips and Drew. "An extraordinary day"

"ON A day like this, shouting and running about is the easiest way to do it," said Mr Ian Marsh, a salesman with Philips & Drew, yesterday.

Mr Marsh, aged 26 and one of the City's new breed of young salesmen, was doing his fair share of shouting and running about. It was, he said, "the most extraordinary day." Monday, by comparison, was "remarkably calm."

Like other young City equity salesmen, Mr Marsh has had to learn quickly how to live with falling markets. In his three and a half years with Philips & Drew and, before them, Ackroyd & Smithers, the stock jobbers, he had seen nothing before this week except sharply rising share prices. But now he talks about Monday's losses as though they had been expected all the time.

"None of us were that surprised," he said. "We knew the market had come up an enormous amount. That's why the market was so calm. But today, there was a lot more fear in it."

Mr Marsh exemplifies many young City salesman. His manner and his way of life are typical of the young men and women drawn into the City by the long bull market of recent years.

A science graduate from Dundee University, Mr Marsh's life has many of the trappings of the successful City salesman. He lives in West Kensington, drives a Scirocco, and keeps a horse for point-to-point events. He admits to a mildly expensive way of life.

Such a way of life may be drawing to a close for some of Mr Marsh's contemporaries, hastened by losses suffered by their employers. The point has already been brought home, said Mr Marsh, by the redundancy of a friend who had worked in the City.

"We know the score here. We're very highly paid in a very high risk industry," he said.

He denies that his relative inexperience makes him unfit for the market's behaviour this week, or that he needs to look to older colleagues at such moments of crisis.

"I can certainly relate to what's going on," he said.

But keeping tabs on the market was proving exhausting yesterday afternoon - particularly after a night spent entertaining clients at the Savoy on Monday.

By the end of yesterday, Mr Marsh was planning a quiet night. "You just feel absolutely battered," he said. "Yes, I've thoroughly enjoyed it today and yesterday. But I wouldn't want to do it every day."

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Philip Stephens reports on efforts to reduce the risks for the world economy

The stakes are too high for squabbles

CRASHING STOCK markets are not a signal that the world economy is moving from recovery to recession. That was the carefully concerted message from finance ministers of the leading industrial countries yesterday.

It is hard not to sympathise with the view that nothing has happened in the real world over the past few weeks to justify such a spectacular collapse. But it seems equally clear that the very fact of the slide has considerably enhanced the risks of an economic slump.

That perception was implicit in the rapid rapprochement between the US and West Germany on Monday evening, in Mr Alan Greenspan's statement of the Federal Reserve's willingness to act as lender of last resort, and in the Bundesbank's retreat on West German interest rates.

According to senior European monetary officials involved in hectic telephone consultations between capitals over the last few days, all governments are agreed that the stakes are now too high to allow the luxury of public disagreements.

The reaffirmation of February's Louvre currency accord and the perception that national monetary policies may be once again be complementary rather than confrontational appeared initially at least to have some effect.

A stonger dollar and soaring bond market temporarily at least injected a note of confidence. On Wall Street, buyers as well as sellers once more appeared on the trading floor before the fear of bankruptcies rekindled earlier panic.

And it was far from obvious that yesterday's emergency policy response would be enough to restore the international economy to a more even keel. "All I have seen so far is what might be described as fire-fighting", commented one European finance ministry official.

There were also plenty of economists both in financial markets and in official positions who were far from convinced that shoring up the dollar will provide a durable answer.

Perhaps the most important economic message from the stock market collapse has been that investors are no longer persuaded that the the present juxtaposition of international trade imbalances, budget positions and exchange rates are sustainable - in particular that the US economy can continue to grow faster than most of the rest of the world with monthly trade deficits of $15bn.

Dire warnings from organisations such as the International Monetary Fund on the unsustainability of such deficits over the medium-term - obscured on foreign exchanges by central bank intervention - appear finally to have percolated through to equity markets.

Last month a confidential IMF report to finance ministers warned that on the basis of current policies and exchange rates the US would still face a current account deficit of $160bn. Financial markets would be unlikely to accept that and might respond by pushing the dollar down by a further 15 to 20 per cent, it said.

Greenspan: Fed as lender of last resort

Of course, the eventual impact on the world economy of the stock market slide will depend crucially on whether it is sustained over coming days and weeks or whether yesterday's revival marked it out as a limited, if extraordinary, interlude.

In the latter case, governments may hope that industrial and consumer confidence has been bruised rather than battered. Prospects for perhaps 2½ per cent growth in the world economy next year will not have been improved but will not have been dashed.

If the recent collapse proves to be more permanent, however, even that rather mediocre growth outlook is likely to appear out of reach, particularly in the US.

The most immediate effect of sharply lower equity prices is traditionally a parallel drop in consumer spending. Individuals holding shares either directly or indirectly face an immediate reduction in their overall wealth and tend to trim their spending accordingly. Such a response would be likely to be especially strong in the US, where share ownership is widely spread.

Economists would also expect a host of other effects. Casualties among financial institutions would have wider implications for economic confidence, while industrial companies could find both the incentive and the ability to raise money for investment significantly diminished. Developing countries might also be hit by a renewed fall in commodity prices as demand in the industrialised world turned down.

In such circumstances the policy response from governments would be crucial - but it is far from certain that they are agreed on how they would react.

One European central banker warned yesterday that a clear danger would be that the US would feel obliged to seek to restore confidence in its financial position by raising interest rates significantly. That he said would run the risk of a serious recession in the US, a parallel slump elsewhere and a re-ignition of the debt crisis.

Perhaps more fundamentally, there are doubts among many economists about whether the present policy of seeking a stable dollar is, in fact, the right one.

A study to be published later this week by Mr David Morrison, senior economist at securities house Goldman Sachs, argues that by seeking to maintain the US currency at unrealistic levels, governments may simply have transferred volatility to the bond and equity markets. "The problem is that the Louvre Accord is fundamentally unsound", he said yesterday.

That view wins considerable sympathy among other economists, though not yet among governments. Their pre-occupation over the next few days is likely to be firefighting.

Banking sector concern focuses on loan-loss risk

BY DAVID LASCELLES IN NEW YORK

THE STOCKS of financial institutions - banks and brokerage houses - were among those registering the wildest gyrations on Wall Street this week.

Shares in Citicorp, the largest bank in the US, plunged by 30 per cent on Monday, wiping $2.5bn off the group's value. J.P. Morgan, the parent of Morgan Guaranty, considered by many to be New York's strongest bank, fared even worse - its shares were off 33 per cent.

The big investment banks were also hit: Morgan Stanley, Merrill Lynch, Salomon Brothers and Paine Webber were all sharply down.

Along with the rest of the market, all these stocks were struggling to recover in early trading yesterday. But the steepness of the fall underlined the vulnerability of the financial sector to sharp changes in market sentiment.

In the banking sector, fears centred on the increased likelihood of loan losses if the collapse in confidence plunges the economy into recession.

Any fall in stock market values was bound to find its way through quickly to other forms of collateral held by banks, particularly real estate.

The involvement of many large banks in highly leveraged deals such as management buy-outs adds to their risk. If it came to the worst, banks could also suffer a run on deposits, though there was no sign of this yesterday.

Mr Robert Clarke, the Comptroller of the Currency who regulates 5,000 of the largest banks in the US, said his office would be monitoring the banks closely, and depositors had no cause for alarm.

The pledge by the Federal Reserve to supply liquidity to the banking system also underlined the authorities' determination to head off a crisis of confidence.

The implied message - that the Fed intends to keep interest rates down - is also good news for the banks, and it prompted Chemical Bank yesterday to reverse the increase in the prime rate which it announced last Friday, but which was followed by only a handful of others.

The fall in Citicorp's share price was particularly ironic since the bank has taken far-reaching measures this year to strengthen its balance sheet.

Aside from the 30 per cent provision it made in May against its Third World loans, Citicorp raised $1.1bn in new equity only last month, and is now more strongly capitalised than it has been for a decade.

This capital was also raised at the peak of the market, when Citicorp stock was trading at nearly $60 a share, almost twice its $32 level at noon yesterday.

Two other large New York banks, Manufacturers Hanover and Bankers Trust, have also raised new capital in recent weeks, but the crisis of the last few days must have put paid to similar plans by other banks.

Wall Street officials have been quick to deny speculation that some banks and brokerage houses have been plunged into trouble by the huge market losses

California-based Bank of America, the weakest of the large US banks, had just completed a $425m debt-raising in Japan.

The three banks which managed to raise new equity showed exceedingly good timing, though shareholders who bought the stock at September's high prices must now be regretting the day.

Mr Thomas Hanley, who analyses bank stocks at Salomon said yesterday that the sell-off was "severely overdone" and that he was recommending investors to buy bank stocks on the strength of the US economic outlook and the much improved health of the US banking industry.

Citicorp, Manufacturers Hanover and Bankers Trust all reported strong increases in profits for the third quarter yesterday.

Officials on Wall Street have also been quick to deny speculation that particular investment banks and brokerage houses might have been plunged into trouble by the huge losses recorded on Friday and Monday, coming at a time when several firms like Salomon are cutting back anyway.

Mr John Phelan, the chairman of the New York Stock Exchange, said on Monday that "no significant member" had had any problems, and Mr Joseph Hardiman, president of the 6,700-strong National Association of Securities Dealers, said none of his members was insolvent.

E.F.Hutton, whose stock price was among the weakest, said yesterday that it saw no reason why investors need be concerned.

The greatest danger lay for firms with large positions of their own in the equity market. But unlike 1929, when losses brought many of them down, they now have means through the financial futures market of hedging their risks and reducing their outright exposures.

The strength of the bond market in the last two days will also have earned them some profits to set against their equity losses.

Ironically, the immense trading volumes triggered by the crisis will have brought in enormous commission revenues which will help profits as well.

But even if trading losses do not bring any firms down, some of them could still be severely damaged by back-office problems as their computers and settlement staff battle with the torrent of sell orders.

Delays in clearing trades will add hugely to the cost of carrying positions, and could put badly organised firms in a tight financial squeeze.

The risk of direct losses from equity trading does not extend to the banks, who are prohibited by law from investing directly in the stock market.

The relevant law, the Glass-Steagall Act, was passed in the wake of the 1929 crash precisely to protect the banking system from such losses.

Recently, banks have been stepping up the pressure on Congress to reform the Act, arguing that the banking environment has changed and that banks need to be able to act as intermediaries between investors and the stock market.

Their case has certainly not been strengthened by the events of the last few days. In fact, many people will argue that the Glass-Steagall Act prevented the crash of 1987 from infecting the banking system, and should not therefore be changed.

DROP UNDERMINES ASSET VALUES

Fall pinpoints holes in US balance sheet

BY JAMES BUCHAN IN NEW YORK

FOR YEARS, people have been saying that US companies and households have borrowed too much for their own good and that something dreadful would happen.

This week, that something dreadful happened - but it was not quite what the Jeremiahs had in mind. The conventional wisdom was that interest rates would soar and bankrupt highly-indebted individuals and companies, including whole industries such as casinos or cable television, which have grown through heavy debt financing and next to nothing else.

In fact, the opposite occurred: interest rates tumbled on Monday as investors raced out of stocks into interest-paying bonds. And yesterday's dramatic efforts by the Federal Reserve to bolster the market with liquidity sent interest rates even lower.

The problem is elsewhere in America's balance sheet. Monday's stock market fall has undermined the asset values that provide the basis, however rickety, for US corporate and private borrowing. And it raises the spectre of economic recession, which will eat deeply into the cash flows available for interest payments - whether on junk bonds or mortgages.

"There were always two very bad prospects," says Mr Jim Grant, a Wall Street credit analyst and publisher of Interest Rate Observer. "One was that interest rates would go up. The other, and much worse, is for a low government bond yield and a very weak stock market. The odds of a recession have increased materially because of the stock-market break. The financial economy is just so important now that any meaningful break will have a profound effect on the economy as a whole."

Mr Martin Dubilier, a leading specialist in taking companies private through highly leveraged buy-outs, said: "The big fear is that consumer unrest will bring on a recession."

For individuals, the stock market collapse could be shattering. Many private investors buy stock on "margin" - by putting up only 50 per cent of the purchase price in cash. But if the stock price falls, their brokerage houses may ask for additional cash.

These "margin calls" against individual investors could amount to over $1.5bn from Monday's fall alone. This could then lead to a vicious circle of falling asset values as investors liquidate other securities, works of art or real estate. In particular, the Manhattan property market - until now one of the healthiest in the US - is vulnerable to a sell off.

For companies, the outlook is just as horrible. Corporate America has seen a wave of takeovers, mergers and leveraged buy-outs financed by debt, chiefly the high-yielding securities known as "junk bonds" and popularised by Drexel Burnham Lambert, the Wall Street investment firm.

Each year for the past three, US companies have cancelled about $80bn worth of their equity - that is, the surplus of assets over liabilities - and replaced it with debt. This awesome leveraging of corporate America succeeded because interest rates were falling and the economy was growing enough to provide the cash to pay interest bills.

Mr Dubilier, who says his own deals are fairly cautiously priced, said: "Some companies were doing leveraged buy-outs at 10-12 times earnings before interest and taxes." But these optimistic valuations did not trouble investors because the soaring stock market so lifted asset values that highly leveraged companies could sell off businesses for big sums to pay down debt.

Monday changed all these assumptions. Even in its headlong fall, the market still kept its head enough to hit the leveraged stocks particularly hard.

Harcourt Brace Jevanovich, the US publishing group which adopted a "scorched-earth" defence to repel an assault from the UK's Mr Robert Maxwell, had lost half its market value by noon on Tuesday, double the loss for the heavyweight, blue-chip stocks of the Dow Jones Industrial Average. The group, which has negative net worth - a surplus of liabilities over assets - of $1.7bn, has always said that its ability to pay off its debt depends on increases in income from its three businesses; publishing, theme parks and insurance.

Other heavily borrowed companies have done as badly. Holiday, the hotel and casino operator which also has a deficit of net worth, fell 37 per cent on Monday while Caesars World, another casino operator which is buying back its stock to deter a corporate raider, had halved by midday on Tuesday. Viacom, the entertainment group, had also lost more than half of its market worth.

Not surprisingly, this week has seen the abandonment of some leveraged deals. On Monday, Mr Samuel Heyman, a well-known corporate raider, summarily cancelled a $2.3bn plan to take his chief company, the GAF chemicals group, private. Yesterday Mr Carl Icahn also dropped a similar plan for TWA, the airline he controls.

Although Sir James Goldsmith, the Anglo-French financier, cannily liquidated his stock-market holdings earlier this year, other takeover and merger specialists have fared badly. The Hafts, aggressive investors from Washington, are sitting on a paper loss of over $100m on their 5 per cent stake in Dayton Hudson, the Minneapolis department store group.

With the takeover artists licking their wounds or waiting on the sidelines, the stock market has lost one of its biggest supports. And nobody knows when the bargain hunters will reappear. "We have to wait for things to stabilise," says Mr Dubilier.

Toronto remains positive

By David Owen in Toronto

IN TORONTO, where the final tally on Monday was a fall of 407.2 points or 11.3 per cent, knocking the market back to where it stood on January 8, sentiment regarding the main background fundamentals remained comparatively positive.

However, brokers cautioned that the market was in unknown territory.

Mr George Vasic, chief economist at Data Resources, a Toronto economic consulting firm, said: "Our view is that the fundamentals have not deteriorated in a major way. Canada is looking the best that it has done during the five years of the recovery."

Many brokers believe that much of the selling, which wiped an unprecedented C$37bn ($28.8bn) off the value of shares traded on the Toronto Stock Exchange, was triggered by anxious retail investors looking to get out of the market at any price. Institutional investors were still much in evidence, albeit at much lower prices.

A leading Toronto discount broker confirmed that small investors were active on the selling side of the market. However, he added, the peak of the bull market had produced more volume - an indication perhaps of more selling to come.

Realignment

The additional 152.3 point plunge taken by the benchmark TSE-300 index in the first 15 minutes of trading yesterday certainly did nothing to undermine that theory.

Interest yields and bond markets were down across the board on Monday with the rate for six-month Canadian Government Treasury Bills falling half a percentage point to about 10 per cent. This clearly points to a longer term realignment in the relationship between stock and bond yields.

Many brokers are worried that the extraordinary volatility will scare a significant proportion of investors away for good.

"You are going to see a lot of people avoiding the stock market," said one. Some have interpreted this as a good omen for consumer savings levels.

Pricing fears force unit trust suspensions

BY ERIC SHORT

EXTREME stock market volatility worldwide resulted in some British unit trust groups suspending dealings in units yesterday, claiming they could not calculate up-to-date unit prices that were fair and accurate.

Other groups continued dealing, but on prices that had been calculated some time previously and were thus out of date.

However, unit trust groups are not reporting a massive wave of selling, in spite of the drop in the market.

Mr Paul Bateman, marketing director of Save and Prosper, said that his experience was that unitholders tended to sit tight while the market was volatile and then sell when conditions had stablised.

GT Unit Managers was one group to suspend dealings completely. Mr Mark St Giles, its chairman, claimed it was not equitable to quote prices that did not make sense either to the unitholders who wanted to sell or to unitholders remaining.

Mr Martyn Arbib, chairman of Perpetual Unit Trust Management, suspended dealings for a time until a fresh valuation of unit prices could be made.

Unit trust managers normally make a price only once a day, this price being quoted in the newspapers.

When the market opened sharply lower yesterday, unitholders wanted to sell at Monday night's price.

Certain groups, such as Sun Life Trust Management, suspended dealings at that price. This company was, however, prepared to accept selling orders at a forward price calculated later in the day.

When markets are moving *rapidly it is necessary for unit* trust managers to revalue prices as frequently as possible.

Framlington Unit Management approached this problem by revaluing Monday night's prices at intervals in line with a market index - the FT-SE 100 for UK funds, the Standard & Poor's Composite Index for US stocks and the Nikkei for Japanese stocks.

This procedure had the agreement of the trustee, Lloyds Bank.

Yesterday's pricing problems can be seen against the background of proposals by the Securities and Investment Board that the unit trust industry *should switch to forward* pricing system in which deals would be transacted at the next price.

The industry has argued strongly against such a change, but it now will have to recognise that its traditional night-before pricing basis is difficult to work in highly volatile conditions.

Strong rise in futures trading helps recovery in Paris

BY GEORGE GRAHAM AND PAUL BETTS IN PARIS

FRENCH investors drew breath yesterday after a morning that had once again tested their nerves.

The market plunged in the morning following heavy selling by British fund managers, but recovered in the afternoon encouraged by a strong rise in the Matif, the Paris financial futures market.

Institutional investors have spent the last few days urging small shareholders to hold on to their shares while busily trying to sell their own portfolios. They were happy yesterday to take the chance to buy into the market again.

Shares in France's recently privatised companies recovered strongly, and brokers suggested that state-backed financial institutions like the Caisse des Depots et des Consignations had stepped into the market to support prices.

Mrs Gilberte Beaux, right-hand of the financier Sir James Goldsmith, urged investors to wait out the crisis, secure in the knowledge that her own group had sold its substantial holding in Generale Occidentale, the forestry and communications conglomerate, in July.

Mr Jacques Chirac, the conservative Prime Minister, struck a similar note yesterday, urging French investors not to panic.

He was responding to a swelling wave of socialist criticisms against the Government's economic policies and privatisation programme.

He said that France "has nothing to do" with the current international financial crisis, adding that the state of the French economy and the profitability of domestic enterprises was improving.

Several other government ministers rallied round the Prime Minister in a chorus of reassuring statements over the current situation.

However, Mr Edouard Balladur, the Finance and Economy Minister, acknowledged that the government's privatisation programme could be affected by market conditions.

The opposition Socialist Party continued its attack on the privatisation programme. Mr Laurent Fabius, the former Socialist Prime Minister, called for a halt in the state sell-off programme while Mr Jack Lang, the *former Culture Minister*, accused Mr Chirac "of destabilising the economy."

But government ministers claimed that small shareholders had shown considerable *sang froid* during the last hectic 24 hours and that they had not been behind the big sell orders on the bourse.

Bonn reassures on dollar fall

BY DAVID MARSH IN BONN AND ANDREW FISHER IN FRANKFURT

MR GERHARD Stoltenberg, the West German Finance Minister, and Mr Karl Otto Poehl, president of the Bundesbank, moved separately yesterday to damp fears of a fresh dollar fall.

Mr Stoltenberg, who with Mr Poehl met Mr James Baker, the US Treasury Secretary, in Frankfurt on Monday, said in Bonn he was sure the February Louvre currency agreement was still functioning.

"Others can have worries - but not I," he said.

Mr Stoltenberg and Mr Poehl attempted to allay suspicions of discord with the US, stoked up by Mr Baker's criticisms last week of the Bundesbank's monetary policies.

Mr Stoltenberg said the participants in the Louvre agreement would exclude no instruments, including currency intervention, to try to stabilise exchange rates, although he agreed that the market would be the "final arbiter."

Monday's severe drop in world stock markets was "not justified by economic facts."

A similar line was taken by Mr Poehl. At a conference in Frankfurt, he said he was surprised that markets had not taken account of underlying improvements in US trade and budget trends.

Mr Poehl blamed the recent rise in short-term West German interest rates on the US, and said the central bank was concerned about the possible economic impact.

Spotlight on Baker and Greenspan to restore economic confidence

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

THE DECISION of Mr James Baker, the US Treasury Secretary, abruptly to cancel his European trip to return to Washington yesterday conjures up memories of then Federal Reserve Chairman Paul Volcker's flight back to Washington in October 1979 from Yugoslavia with a package of economic policy initiatives designed to stabilise the dollar and fight inflation.

That Mr Baker will confront a different political, financial and economic climate on his return in the wake of the unprecedented panic on Wall Street was underscored yesterday by the statement from Mr Alan Greenspan, Mr Volcker's successor at the Fed.

In an effort to reassure the financial markets and the general public that the frightening comparisons which are being made between the crash on Monday and the stock market collapse of 1929 are more apparent than real. The statement said: "The Federal Reserve, consistent with its responsibilities as the nation's Central Bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system." In 1929 the Fed tightened credit and made the *situation worse*.

But the question Mr Baker and Mr Greenspan have to answer is just how different the situation is. With Wall Street see-sawing yesterday and continuing to be the key factor in shaping events, the judgment will be a fine one to make, much more difficult, for example, than *the one which faced* Mr Volcker in 1979.

Then, with the dollar collapsing, inflation already into double digits and soaring oil prices threatening to hold it there, Mr Volcker knew the economy was in desperate shape and he had no option but to act dramatically to try and restore confidence. *And he did.*

Today with inflation still only at 5 per cent and the economy growing, the Administration is still able, plausibly, to argue as President Reagan did on Monday night that the fundamentals underpinning the economy are sound. However, most economists reject this view because of the huge trade and budget deficits.

*So far as the economic out*look is concerned today the initial reaction of Wall Street economists has been to conclude that the odds that the US will slip into recession sooner rather than later have been increased. Unless share prices make an extraordinary recovery hundreds of billions of dollars *will have been wiped off the* value of investors assets, reducing their spending power and removing what has been one of the strongest props to consumer confidence.

This has occurred at a time when the expansion of consumer incomes has begun to slow, a factor which had lead Goldman *Sachs Economics to reduce its* forecast for real economic growth in the US to only 2 per cent next year even before the stock market crash.

What impact the blow to confidence will have beyond the consumer is another imponderable with much depending on what the political response will be, particularly in Washington. For as Mr Alan Sinai, Shearson Lehman Brother's economist, remarked as share prices were plunging on Monday, the collapse reflected in large part a crisis of confidence in Washington's policy makers.

Politically, of course, the biggest loser is Mr Baker, and, if the economy does slip into recession next year, probably his Republican Party. Mr Baker's supporters in Washington are saying that you can hardly blame him for the crash. Maybe. But he certainly contributed to it.

His decision once again publicly to try and twist West Germany's arm *at a time when* share prices were already falling and Wall Street beginning to manifest signs of a rapid erosion of confidence is recognised as a blunder of the first order, another reminder of the insenitivity to financial markets among Washington's policymakers now that Mr Volcker has left office.

It was Mr Nigel Lawson, the British Chancellor of the Exchequer, who suggested yesterday that the issues dividing West Germany and the US would have been better aired in private.

With Mr Baker and Mr Greenspan still out of town the Administration's reaction yesterday was essentially to play for time. As Democrats on Capitol Hill such as Senator Lloyd Bentsen repeated their calls for a political summit between the White House and the Congress to agree on a budget compromise, Mr James Miller, the Administration Budget Director, appeared before the White House press offering only further *confrontation*.

"Let's talk about the stock market at another time," he responded to questions about the impact of the Wall Street collapse on the budget outlook. "We are going to stick to our guns," he added, reiterating the President's opposition to a tax increase as part of a compromise.

The White House will clearly not want to allow itself to be panicked into early concessions, and so to throw away its political leverage. But both Wall Street and the foreign exchanges will be looking to see what precisely Mr Baker's meeting with his West German counterpart yesterday yielded and what shifts will take place in Washington.

As the New York Times commented in its lead editorial yesterday on the White House statement on Monday night that the underlying economy is sound: "With the fire alarm wailing on Wall Street and the country anxious for leadership it gets an astonishing rerun of Herbert Hoover. *When will Mr* Reagan start fighting the fire?"

MR NIGEL LAWSON, the UK Chancellor of the Exchequer, implicitly criticised Mr James Baker, the US Treasury Secretary, *for his role in the collapse* of world stock markets this week but said that the markets had "grotesquely over-reacted," writes Philip Stephens.

Speaking in a series of radio and television interviews, he said that the worldwide slide in equity prices "has a lot to with the US stock market, a lack of confidence in the US and some careless talk by those who should have known better".

The latter is seen in Whitehall as a reference to Mr Baker's weekend remarks suggesting the US might allow the dollar to fall if West Germany persisted in pushing up its interest rates. The row was subsequently *resolved* when Mr Baker met Mr Gerhard Stoltenberg, the West German Finance Minister, on Monday.

Mr Lawson, who spoke with Mr Baker on the telephone on Monday evening, dismissed suggestions that the US and world economies faced a real danger of recession. "I see no fundamental signs why the US economy should go into recession...the only way in which the American economy would go into a recession is if it actually talks itself into a recession", he said.

EC plans tougher testing of pesticides

By William Dawkins in Brussels

THE European Commission is drawing up measures to enforce tougher testing procedures for pesticides and to bring greater protection for users.

The plans were revealed yesterday by Mr Stanley Clinton Davis, the British Environment Commissioner, during a speech at a Confederation of European Chemicals Industries conference. He said experts were "urgently examining" how to rectify possibly dangerous shortcomings in pesticide marketing controls.

"Too many pesticides allowed on the market are tested by outdated methods and in some member states, it is evident that the funds available for testing are utterly inadequate," he said. There was also a need for clearer labelling.

"It is clear that different companies, selling similar types of pesticide, provide differing and sometimes conflicting instructions to users," he added.

Mr Clinton Davis also welcomed last month's accord between more than 40 nations to reduce the use of chlorofluorocarbons (CFCs), a widely used chemical implicated in depleting the ozone layer.

This should provide an incentive to develop a full range of substitutes for CFCs, he said.

EC, US, JAPAN AND SOVIET UNION SIGN PACT

Fusion energy co-operation agreed

BY WILLIAM DAWKINS IN BRUSSELS

THE European Community, US, Japan and Soviet Union have agreed to work together to design an experimental thermonuclear fusion reactor by 1990. Work will begin early in 1988 at the West German plasma physics institute at Garching, near Munich, though the site will be reviewed after the first year.

The choice of base came after much hard bargaining between Washington, which wanted Livermore laboratories near San Francisco, Moscow, which could not accept a US site, and the EC, which lobbied equally hard for the work to be based in the Community.

The accord was signed after a two-day meeting in Vienna, under the auspices of the International Atomic Energy Agency, which is to supervise the work and chair meetings of the four partners.

Conveniently for the Community, Garching is also the site for the EC's Next European Torus (Net) research into the technical possibilities for fusion, the next stage on from the scientific studies carried out at Culham laboratories in the UK under the Jet programme.

The accord could give the EC scope to ensure the design of the four-power International Thermonuclear Experimental Reactor (Iter) is aligned with the Garching's own work, though most experts acknowledge that the Community is in any case ahead of the game in fusion research.

The Iter project aims to show the technological feasibility of fusion, a way of making energy by combining nuclei, or atomic building blocks, rather than splitting them as in conventional nuclear fission.

Fusion is in theory a cheaper, longer-lasting and safer energy source than fission. The project does not envisage building a reactor, though that could be possible by the end of the century, say experts in Brussels.

Roughly 10 scientists from each side will work on the design of Iter, rotating with colleagues at home at intervals of several months. The design will be available to all parties to use in their own fusion programmes or even in a larger international joint venture.

EC in deadlock over food radiation limits

BY QUENTIN PEEL IN LUXEMBOURG

THE CRUCIAL question of what constitutes a safe level of radiation in foodstuffs in the wake of another nuclear accident has left the European Community in deadlock, and facing the prospect of a legal vacuum at the end of the month.

The result could be a new proliferation of differing public health regulations in the 12 member states, disrupting cross-border trade in farm products.

The member states cannot decide on whether to follow their scientists' advice on safe levels of radiation - measured in becquerels per kilo - or opt for a stricter level to reassure public opinion.

The issue came to a head on Monday night when EC Foreign Ministers tried and failed to agree on a new regime, or at least to continue the present restrictions imposed in the wake of the Chernobyl disaster.

On the one side, France, Britain and Spain are adamant that future protection should be set at the levels recommended by a panel of expert scientists. West Germany, Denmark and other member states want stricter levels to reassure public opinion that they are taking tough action.

Mr Stanley Clinton-Davis, the EC Environment Commissioner, who proposed the new safety standards, condemned the failure to reach a decision as "totally unacceptable and disastrous for the Community."

He called for a new Council of Ministers to be convened before the present system of agreed radiation levels expires at the end of the month. They would be asked simply to extend the present regime for two years, with a review after the first 12 months.

That would certainly be unacceptable to France, the member state which relies most heavily on nuclear power.

The levels proposed by the EC scientists are for 4,500 becquerels per kilo for dairy products and 5,000 bq/kg for other foodstuffs. They are backed by France, Spain and the UK.

West Germany wants to maintain the current levels of only 370bq/kg for dairy, and 600 bq/kg for other products. The Commission proposed a compromise of 1,000 bq/kg and 1,250 bq/kg respectively.

Officials believe a possible compromise would be to agree on the figures for a future regime - in the event of another nuclear accident - along the lines of the scientists' recommendations. Then it might be possible for France, Spain and the UK to go along with maintaining stricter standards

Bulgaria introduces rationing of energy

By Judy Dempsey in Vienna

THE BULGARIAN authorities have introduced measures to ration energy as part of a programme to keep the country's industry working at full capacity over the winter months.

The measures, which were introduced at the weekend, affect particularly the use of domestic appliances. Electrical appliances will be limited to five hours a day. Those who exceed the restrictions will be fined and may even have their supplies cut off.

This is the third consecutive winter in which energy rationing has been introduced in Bulgaria. The severe drought of 1984, followed by bitterly cold winters, practically drained the reserves of the hydro-electrical power stations which supply more than a third of the country's energy needs. The power grid was also severely strained, which led to significant slowdowns in the industrial sectors.

Meanwhile, Soviet and Bulgarian scientists are inserting fuel rods into Bulgaria's new Soviet-designed 1,000-MW pressurised water reactor at Kozloduj, north of Sofia.

The reactor was supposed to have begun operating by September in time for the winter.

Alitalia grounds commuter plane following crash

BY JOHN WYLES IN ROME

ALL EIGHT versions owned by Italian operators of the Italo-French commuter aircraft, the Atr 42, have been grounded following last Thursday's crash with the loss of 37 lives of an aircraft belonging to Ati, the Italian state-owned airline.

Alitalia, Ati's parent company, said it had decided to ground the aircraft following an analysis by its technicians of all available data on the disaster.

The move was not meant to imply any judgment about the safety of the design, but derived from the priority the company gives to passenger safety. Any "reasonable doubt" that this might be in jeopardy justifies such a decision, said Alitalia.

The airline's decision was swiftly followed by a similar order from the Ministry of Transport affecting Atr 42s operated by the small companies, Alisarda and Avianova.

A commission of inquiry into the disaster has consigned the aircraft's flight recorder and tapes of in-flight conversations between the crew to the Accident Investigation Branch at Farnborough in the UK.

The aircraft was only a few minutes into a flight from Milan's Linate airport on to Cologne when the pilot radioed an emergency and it promptly disappeared from radar screens.

Witnesses claim to have seen flames before the crash but reports on the wreckage and the remains of victims suggest no evidence of a fire.

Speculation on a failure of the anti-icing equipment has been strengthened by the fact that the aircraft's departure was delayed for a manual treatment of its propellors because of a fault in the on-board anti-icing device.

The crash is a blow for the two manufacturers, Aeritalia and Aerospatiale, of a new design which only came into service in Italy 15 months ago. Available in 42-seat and 49-seat versions, the two companies have booked more than 180 orders and options from 30 airlines around the world.

Swiss budget predicts further growth next year

BY WILLIAM DULLFORCE IN GENEVA

THE SWISS Federal accounts will show a surplus for the third year running, according to the 1988 budget published yesterday. Mr Otto Stich, the Finance Minister, attributes this to the further economic growth expected next year and to the strict discipline applied to federal spending for the past few years.

Revenues are scheduled to reach SFr27.2bn (£11bn) in 1988 and to give a surplus over expenditure of SFr1.3bn.

This compares with the recorded surplus of just under SFr2bn in 1986 and the budgeted surplus of SFr171m for 1987 which the finance department now estimates will turn out substantially bigger.

Switzerland's economic growth will slacken in the next couple of years, as the depreciation of the dollar affects exports, the finance department predicts. Nevertheless, it expects a growth of 2 per cent in gross domestic product in real terms next year.

Domestic investment should continue to be firm and consumer demand will also probably remain strong, the department believes. It expects the rate of inflation to accelerate from the 0.8 per cent registered in 1986, but to remain moderate at an annual average of 2 per cent.

On the expenditure side of the 1988 budget an 11.3 per cent increase in spending on communications and energy stands out. This is due largely to larger allocations to public transport, particularly to the railways. Other new priorities are environmental protection and research, both of which receive higher than average increases.

Mr Stich warns against too optimistic long-term expectations. Increased pension payments and tax reliefs recently passed by the Federal parliament will retard the growth in budget revenues from 1990.

●Conservative resistance to the Green environmentalist movement in last weekend's Federal elections was even stronger than previously reported, the final results show.

The Swiss Ecological Party increased its seats in the 200-member National Council from four to nine, while an allied Green/Red group advanced from four to six.

However, the combined weight of the three big "bourgeois" parties remained unchanged. The Radical Democrats took 51 seats (down three), the Christian Democrats retained their 42 and the People's Party gained three to 23.

The victim was the fourth partner in the ruling coalition, the Socialist Party, which had its representation reduced from 47 to 41.

Mitterrand calls for joint nuclear arms strategy

BY IAN DAVIDSON IN BONN

PRESIDENT François Mitterrand, on a state visit to West Germany, has called on Europe to develop its own joint views on nuclear arms control negotiations between the two superpowers.

At the same time, he has pointed towards a radical revision of France's nuclear doctrine to alleviate German anxieties that the use of French sub-strategic weapons would simply devastate German territory.

Speaking at a state banquet on Monday night, President Mitterrand said: "Now that disarmament agreements are taking shape between the US and the Soviet Union - which I approve without reserve - we must together define the bases of our common security.

"Everything requires us - the Europeans - to adopt similar positions on the US-Soviet negotiations: the agreement, being prepared for the elimination of US and Soviet intermediate-range nuclear forces (INF), the reduction of their strategic armaments, or the application of the 1972 Anti-Ballistic Missile (ABM) treaty."

If followed by West Germany and France's other European allies, President Mitterrand's proposal would represent a major departure from traditional Western practice. It would imply European readiness to adopt, and presumably to express, policy positions on arms control publicly at variance with those of the US.

All existing nuclear arms control agreements, with the exception of the Non-Proliferation Treaty (NPT), have been bilateral deals between the superpowers.

President Mitterrand claims entirely to approve the prospective Euro-missile agreement on the grounds that it is the first step towards disarmament since the Second World War.

Nevertheless it is clear that the French Government, in particular, is uneasy at the prospect of an agreement which appears to spell the beginning of a process of denuclearisation of Europe, and potentially suggests the start of a decoupling of the US from Europe.

Traditional French nuclear doctrine has rested on the idea of a final warning to an aggressor.

Yesterday afternoon, President Mitterrand followed up his Monday night hint. "Let us stop drawing up plans for winning a war," he said. "Let us make haste to draw up plans for preventing war."

Critics use UN as political scapegoat, says M'Bow

MR AMADOU Mahtar M'Bow of Senegal, defeated in his bid for a third term as head of the United Nations Educational, Scientific and Cultural Organisation, accused his critics yesterday of trying to make the UN a scapegoat for the world's political problems, **Reuter reports from Paris.**

Mr M'Bow, Unesco director-general for 13 years, defended the UN system at the start of a full meeting of Unesco's 158 member states.

He made no direct reference to his defeat by Spanish biochemist Mr Federico Mayor, who was nominated for the $159,000-a-year post on Sunday after a bitter struggle within Unesco's 50-member executive board.

The general conference must now approve the board's nomination, and its five-week-long meeting in Paris is expected to be dominated by the leadership issue.

The conference has in the past always accepted the board's recommendation, but diplomats say some of Mr M'Bow's mainly African supporters may attempt to overturn Mr Mayor's nomination.

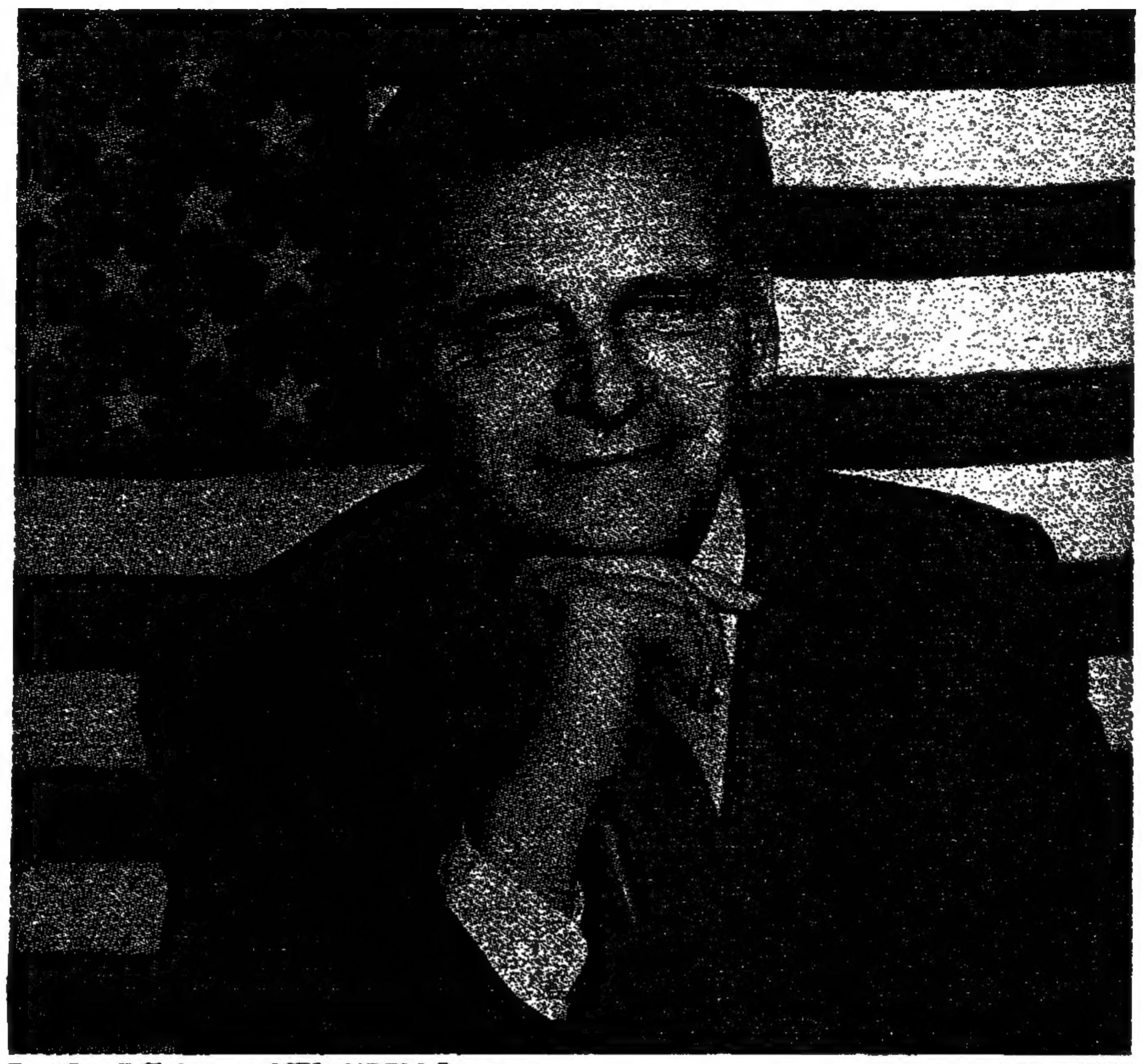
In his speech, Mr M'Bow dismissed criticism by some Western countries, particularly the US, that the UN had become too politicised.

The US and Britain pulled out of Unesco in 1984 and 1985, accusing the agency of anti-Western bias and mismanagement under Mr M'Bow's stewardship.

"Some people have sought to make the failings of the UN system responsible for the most flagrant flaws in international relations," Mr M'Bow said. "But it can only reflect the dilemmas of the international community."

The herald and tribune in Chicago

Taking charge at America's AB Dick "rejuvenated" David Powell – and the business. Next comes major expansion of The General Electric Company in the US: "we've got the money," he tells Robert Heller, "and we've got the urge."



David Powell, Chairman and CEO of AB Dick Company. *Photography by Terry O'Neill*

FEW roles inside The General Electric Company offer greater scope than David Powell's – and not just because his territory takes in the world's richest market and GEC's most obvious growth potential. The group's sales in the United States are now comfortably over a billion pounds; but nobody doubts, least of all Powell, that the American business "must be" greatly and rapidly expanded as the most crucial element in GEC's drive to "grow and be international – as I believe it should be and will be."

Another aspect of Powell's scope is the vast range of options in a market where "you're driven by the competition. It's very widespread, very real and sometimes very big."

He talks of the "elephants" which dominate some sectors. Part of Powell's role is helping to find the niches where GEC can become equally dominant through developments that will take several forms. He has first-hand experience of one: buying a free-standing US company and making it work.

The business, AB Dick, was not the most brilliant purchase in GEC's history – it was a "mature business" as Powell says, that needed to be rejuvenated. The $103 million purchase price looked worse and worse as the losses under GEC ownership grew larger and larger.

Powell was sent across to Chicago in 1983, aged 54, with the instruction from Lord Weinstock to "Get over there. Do what you like. I don't want to see any more figures like that." Powell had "always had a hankering to try my hand at working in the States": but he had thought it "a bit late in life to start new pastures." There was also some question in his mind over whether there was "a man-sized job in the USA." But the balloon went up with AB Dick.

"My main job was to get the animal healthy."

It took only 18 months for Powell to bring the company and its losses down to earth – basically by deciding to "get back to what we were good at." That was the core product line, offset duplicators.

Powell had come from heading GEC's diesel companies. "The diesel industry too was always going to decline, according to the pundits" he says. While offset duplicating is also now a mature technology, it is actually growing by a steady 6% per year, the offset process provides "cheaper, better quality" copies than xerographic copiers and has given AB Dick a large share of the quick print industry.

On that foundation, Powell has begun to do something he loves: "grow a business." AB Dick is now selling "a full line of copiers" (made for it outside) along with its offset products. It makes its own electronic publishing system, too, for a market that is already the second largest for micros – and may well overtake word-processing to become the biggest.

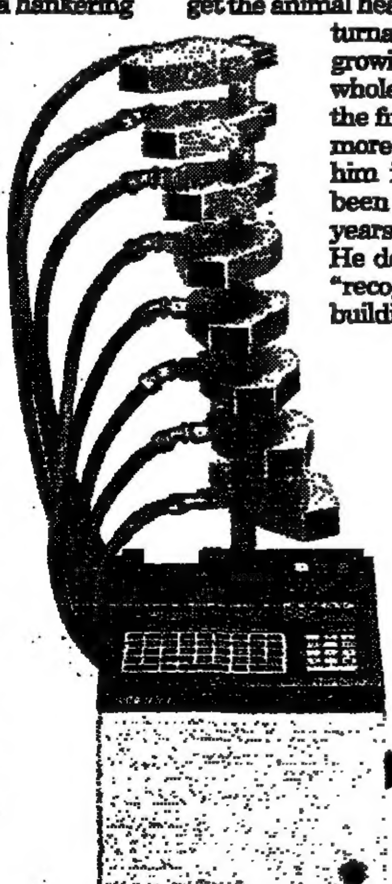
"Something like 40% of the world market is in the US."

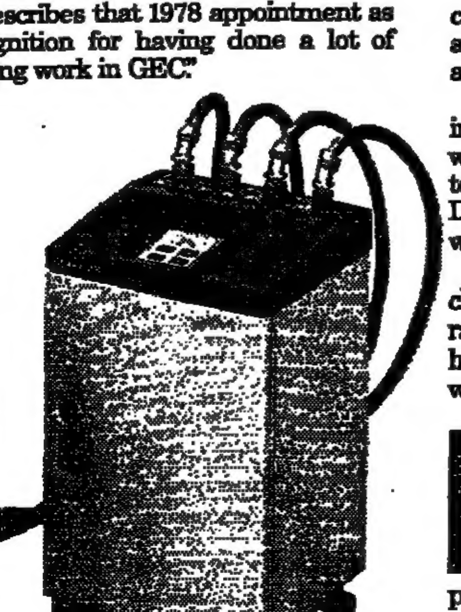
And then there's Videojet Systems, Inc. This business has grown in sales by 20-25% annually until its profits roughly equal the hugely recovered earnings of the Dick parent.

The Videojet technology consists of a continuous stream of tiny ink droplets, forced through a minute orifice at high velocity, and controlled electrostatically to deflect the individual droplets and "paint" dot-matrix characters on virtually any surface.

What was first developed as an office printer eventually found its growth in industrial marking as applications emerged in coding the concave ends of aluminium beverage cans, postal bar codes on mail pieces and now much more.

Videojet has greatly helped Powell in meeting his personal challenge at AB Dick. "My main job was to get the animal healthy. Now – how do we use it?" The turnaround is complete and "we're growing in real terms – developing the whole of GEC's business in the US for the first time." Now Powell can also turn more to the broader role envisaged for him in 1983. At the time, Powell had been running the diesel business for 12 years and was sitting on the main board. He describes that 1978 appointment as "recognition for having done a lot of building work in GEC."





The videojet process can print symbols or characters on virtually any surface, or shape of surface. It is extensively used for the application of product codes and postal markings.

A chartered accountant, he came to GEC from English Electric in 1963 because he wanted "a chance for general management." He became perhaps the most mobile of GEC's senior managers. First, as Number Two in the Power Engineering Division, Powell was plunged into decentralisation, then, moving onto the second spot in the Telecommunications Group, he concentrated on computers and production control, forward planning, reducing work in progress, and otherwise exploiting the major areas of profit potential.

In 1966, the Telecommunications job took him for the first time to the US. After visiting "some of the better companies" and "staying up all night dictating notes," he came back "absolutely fascinated with what I'd seen" at companies that were "deeply involved with management-philosophy. What impressed me more than anything were the management measurements."

"You're driven by the competition."

Powell's fascination became an important factor in developing the famous management ratios for which GEC managing directors are held to account to this day. Moving on again, Powell became the Director of Planning at Stanhope Gate; "but it wasn't planning."

He was a veteran of the controversial Woolwich closure (possibly British industry's first major rationalisation); and Powell actually spent most of his time "helping people with rationalisation in the wake of the English Electric merger."

POWELL is now deeply involved in making sense of another left-over from his former employer: "the old English Electric in New York," set up to sell products of the divisions back home, and loaded with the usual problems of never satisfying anybody.

This type of approach is another of the many routes to the group's future American growth. Powell is adamant that GEC has "got to be international," even if, in consequence, the centre of gravity in some sectors "may have to be somewhere else" – not in Britain. That's most likely to mean America simply because "something like 40% of the world market is the US; it's surprising in how many industries it's, plus or minus 40%."

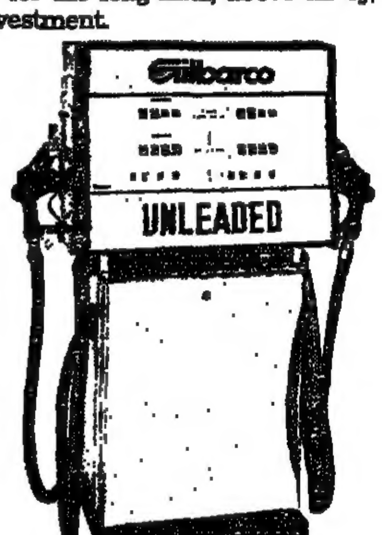
Powell got known as "the America lover" when based in Britain: in fact, at diesels he was the first GEC managing director to buy an American company. After all his visits and affinity, he "thought I knew the States." Not so: "I didn't until I lived there."

The US, he explains, "is a different country, is really a continent, a different culture." The key business differences are, first, that "price is more important than value"; second, there's "far more intense competition – take your eye off the ball for a few weeks, and you're dead"; third, "you've got to deliver"; and fourth, service and support are vital to customers "who will say your product works, then ask: but how do we do this with it?"

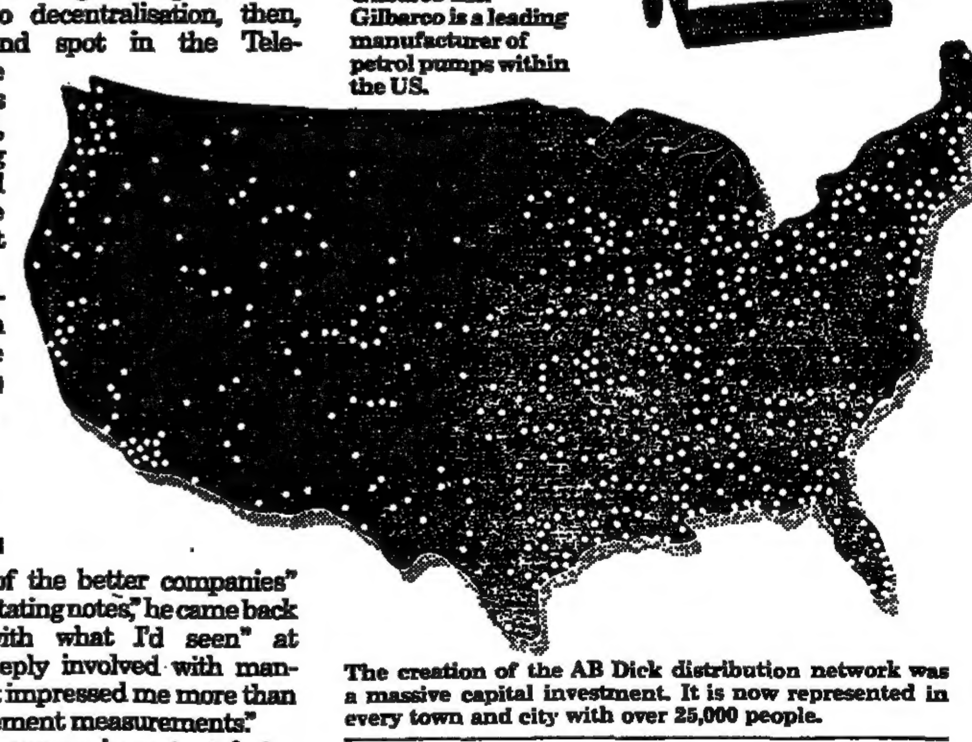
FOR an ambitious company like AB Dick, that all adds up to national distribution – a phenomenally costly set-up (taking anything from $25 million to $50 million to establish from scratch) that is a crucial justification for buying Dick. It has 70 owned branches in North America, accounting for two-thirds of its business; 110 individual distributors; and 230 dealers – "we're represented in every town and city with over 25,000 people."

That represents an enormous asset, and Powell is determined "to utilise this network to sell more products, more processes." He stresses that organic growth in the US never comes easily, and won't come at all without one essential: "You must commit absolutely" for the long haul, above all by heavy marketing investment.

"Take your eye off the ball for a few weeks, and you're dead."



In the summer of 1987, in line with its major expansion programme, GEC purchased The Gilbarco Inc. Gilbarco is a leading manufacturer of petrol pumps within the US.



The creation of the AB Dick distribution network was a massive capital investment. It is now represented in every town and city with over 25,000 people.

ACQUISITION is another, in some ways easier route: Powell cites GEC's recent purchase of Gilbarco, the very strong manufacturer of petrol pumps, as an example. But there are excellent opportunities for the British-based companies to develop their individual US potentials: "We've got the money," says Powell, "and generally we've got the urge.

The combination of money and urge could – and in his view should – result in a very rapid American build-up: doubling the US share in GEC's turnover inside three years is a feasible target. Working out the exact path to such ends is "a challenge in itself," says Powell. He has thrived on the first stage of the American challenge, and on the "tremendous satisfaction" achieved from turning round AB Dick. "I feel 10 years younger than when I first went out there," he says. "I've been rejuvenated."

Robert Heller is Editor-in-Chief of Finance Magazine.

Reagan orders $23bn Federal cuts

BY LIONEL BARBER IN WASHINGTON

PRESIDENT REAGAN yesterday ordered $23bn of temporaray across-the-board cuts in the Federal Budget deficit, as mandated by the revised Gramm-Rudman law.

The cuts are temporary because the law gives Congress and President Reagan until November 20 to agree on alternative methods of cutting the fiscal 1988 deficit. But if they fail to bridge their differences, notably on the need for tax increases, the cutbacks become permanent.

Mr James Miller, director of the Office of Management and Budget, presented proposals for the automatic cuts to the President yesterday morning and repeated the administration's opposion to tax increases: "We're going to hold to our guns. The President gave us specific orders," he told reporters at the White House.

The OMB estimated that the automatic cuts would reduce military spending by 10.5 per cent ($11.5bn) and non-military programmes by 8.5 per cent ($10bn). The balance would be obtained by one-off savings.

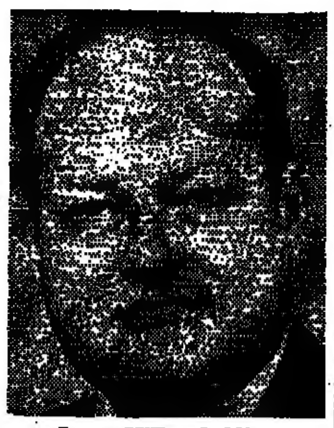
The Congressional Budget Office which has an advisory role in the process published similar figures last week.

Within the broad categories targeted for cuts, specific areas are exempt: social security, the military payroll, welfare and veterans' benefits.

The OMB said the automatic cuts (called sequestrations) would reduce outlays in national defence from $289.6bn to $278.1bn, international affairs (mainly the State Department budget) from $16.7bn to $15.5bn, transportation from $28.3bn to $27.5bn, education and training from $33.1bn to $32.2bn and medicare from $80.3bn to $79bn.

Democrats, responding to the threatened cuts, are pushing ahead with their own deficit reduction package. These would use a variety of tax increases to achieve around half of the deficit reduction mandated by Gramm-Rudman.

The Gramm Rudman cuts are made from projected levels that take inflation into account.


James Miller: holding to his guns

Violence forecast as Lima seizes banks

BY BARBARA DURR IN LIMA

THE PERUVIAN Government was to seize control yesterday of five more private commercial banks as part of its move to a second round of expropriations under its new law nationalising the private financial sector. Some violent incidents were expected.

The five banks were Banco Financiero, Banco Mercantil, Banco de Lima, Banco Latino and Bandesco (Banco de Desarrollo y Construccion). Last week, the Government used tanks and tear gas to seize control of Peru's two largest private banks and a finance company.

Under the nationalisation law, which went into effect October 12, ten private banks, 17 insurance companies and six finance companies are to pass to the state.

Mr Francisco Pardo Mesones, president of the Banco Mercantil and of the Association of Banks, said he would defend his bank to the last. He contended that the Government was acting unconstitutionally and illegally by not obeying court orders prohibiting the take-overs.

Mr Pardo, the leader of banker resistance to the nationalisation, has been living at his office since September 28 to impede the expropriation. From the early hours of yesterday morning he was huddled with his bank's board of directors. Mr Pardo has repeatedly said he would not leave his bank voluntarily.

Meanwhile, employees at the largest of Peru's private banks, the Banco de Credito, which was taken over last week, returned to their jobs on Monday, following a withdrawal of Government security forces. They had refused to work while police in riot gear remained inside the bank.

The Minister of Labour announced that he would fine the 17 insurance companies and six finance companies which had given their employees 15 days paid leave from Monday. The companies said they were shutting down operations for the safety of their staff after the violence that had occurred in last week's take-overs. The Government considers that such leave is illegal under the labour code.

The director of the Lima stock exchange also suspended the seven brokers who had handled the sale of a majority of stock in the Banco de Credito to its workers. They were charged with not depositing the money from the sale. But the Government had impeded the process of the cheques, thus making the deposit impossible.

Doubts over Sarney as reshuffle delayed

BY IVO DAWNAY IN BRASILIA

DOUBTS over President Jose Sarney's ability to form a coherent Brazilian "national unity" government increased yesterday after an announcement of ministerial changes was delayed for 48 hours.

The hold-up was explained as being merely to allow the president more time to complete plans that may involve the elimination of four ministries. However, it was also clear that intensive consultations were continuing with leading politicians.

Mr Sarney first declared his intention to reshuffle his cabinet on October 8. In a nationwide television broadcast, he complained that the political parties had failed to give him adequate support and that he would now create a new grouping committed to a "minimum programme" of policies.

The programme included acceptance of a five-year presidential mandate and the rejection of a parliamentary system of government - the two issues now dominating the assembly as it draws up a new constitution.

Analysts saw the move as an attempt to split the dominant Democratic Movement Party (PMDB) and create a "moderate" president's party from a new grouping comprising the party's centre and right wings in alliance with the centre-right Liberal Front (PFL).

The outcome has been quite the reverse, however. While the PMDB held together with vague expressions of support, the PFL has divided. Some leading PFL figures are insisting on backing the president, while grass roots supporters are urging an immediate break with the government.

After suffering a catastrophic defeat in elections last November, the PFL's regional offices believe that only a clean break with an unpopular government now can improve its chances at municipal elections next year.

Mr Sarney's latest delay is adding to criticism that little will actually change. Mr Ulysses Guimaraes, the PMDB leader, was quoted yesterday as saying that the party would back the president on condition that it was first consulted on policies - exactly the sort of conditionality that Mr Sarney was attempting to end.

An informal meeting of leading Sao Paulo businessmen concluded yesterday with a general expression of pessimism that the political impasse will be broken.

Strong rise in US housing starts

US HOUSING starts rose a surprisingly strong 4.4 per cent in September to a seasonally adjusted rate of 1.669m units a year - the largest monthly increase since December, the US Commerce Department said, Reuter reports from Washington.

Most economists had expected starts to fall as a result of rising interest rates which have slowed home sales.

While construction starts were much higher than anticipated, permits for future construction fell 0.6 per cent to a seasonally adjusted annual rate of 1.493m units, the department said.

Housing starts in September were down 1.2 per cent from September 1986 while permits were 11.5 per cent below the September 1986 level.

September's increase in housing construction was the biggest since December when starts jumped by 10.6 per cent.

Last month's rise includes a solid 5.1 per cent gain in single-family home construction, the department said. That rise followed a 2.8 per cent drop in single-family starts in August. Permits for future construction of single-family units fell by 3.2 per cent in September.

The department said housing construction in August was stronger than had been previously estimated. The agency said housing starts were unchanged from July levels instead of being down 1.5 percent as previously estimated.

Multi-family housing starts rose 2.9 per cent in September and permits for future construction jumped by 5 per cent after falling 3 per cent in August.

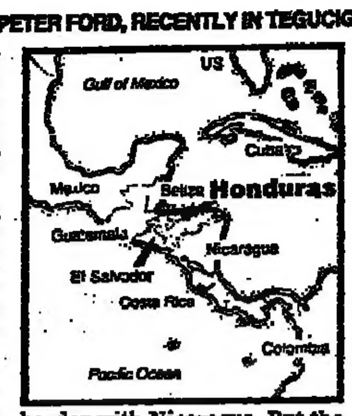
Haiti free poll order

BRIGADIER General Williams Regala, Haiti's Minister of Defence, has ordered the armed forces to remain neutral in next month's elections and to ensure free and open voting, AP reports from Port au Prince.

Presidential candidates and Haitians have accused the armed forces of human rights violations.

Treaty puts Honduran good intentions to the test

BY PETER FORD, RECENTLY IN TEGUCIGALPA



CENTRAL AMERICA'S new peace plan has made life more complicated for all the region's five presidents. But none finds himself in a more awkward spot than President Jose Azcona of Honduras.

He pledged last month in Guatemala "to prevent the use of (Honduran) territory by - and not to lend or allow military logistics support to - persons, organisations or groups seeking to destabilise" neighbouring governments.

That means that by the treaty's deadline, November 7, the Nicaraguan Contras have got to go. Mr Azcona must thus choose between betraying his word, or betraying his ally and protector, the Reagan Administration.

Honduran officials have repeatedly insisted that they will comply with the Guatemala pact. But they cannot publicly explain how they are going to do so, since they have never acknowledged that they allow any Contras to operate here.

Certainly, the Government has done nothing yet to fulfill its obligations. While Nicaragua, El Salvador, Costa Rica and Guatemala have set up National Reconciliation Commissions, to monitor the authorities' compliance, Honduras argues that it has nothing to reconcile.

Honduras' refusal to form a commission, says one senior Sandinista official, "is not the critical problem," and Managua will probably overlook it. The key issue is the presence of the Contras.

"If the Government says there is no need for a reconciliation commission because there is no need for reconciliation, why not create one anyway, to show good faith?," wonders a European diplomat here.

"If they haven't done it," he suggests, "it's because there is one irreconcilable question there: the Contras."

The way the Nicaraguan rebels have used Honduras for the past five years as a sanctuary and a logistical rearguard has drawn predictable protests from left-of-centre political parties and trade unions.

But it has also tested the patience of big coffee growers, whose farming has suffered disruption by the Contra presence, and of the country's political class as a whole.

"The feeling now," explains one Honduran official privately, "is that we have already played our part" in US policy towards Nicaragua.

Tegucigalpa's repeated denials that it helps the Contras have never carried much weight: reporters have regularly visited rebel camps along the border with Nicaragua. But the weakness of Honduras' public statements has never hurt anything except the Government's image.

Now it matters more. Next November, an international verification commission will be visiting the country to judge whether Honduras is abiding by the peace plan.

The Contras could conceivably hide some of their camps in the jungle. But they will also have to find somewhere else to put their computerised communications equipment, planes and supply dumps, currently housed in Honduran army bases such as Aguacate and Swan Island.

Such disruptions would clearly displease the US Administration, which continues to support the Contras as vehemently as ever. Mr George Shultz, Secretary of State, announced recently that President Reagan would ask Congress for $270m in Contra aid for the next 18 months.

Since the Contra programme began, Honduras has become ever more economically and politically dependent on the Reagan Administration. Unlike Costa Rican President Oscar Arias, one official here laments, Mr Azcona has not built any bridges to Democratic Congressmen who might provide a safety net should Tegucigalpa untie itself from US policy.

"Honduras would like to see the backs of the Contras," says a Western diplomat here. "But it is powerless to do much about it."

The Contras too are worried about their position after November 7. Although US Congressional leaders have reached a preliminary deal to give the rebels $3.5m in humanitarian aid to tide them over when their current funding expires on September 30, the Contras have a wider political problem.

"We have to be jugglers, keeping three crystal balls in the air," explains Mr Alfonso Robelo, one of the Contras' six political leaders.

Those balls are not necessarily compatible: the Contras must preserve their political unity and ensure the maintenance of their army, yet never appear an obstacle to the peace process for fear of losing Congressional support.

"How are we going to keep our military force alive, without failing to comply with the peace plan. That's the real question," says Mr Robelo.

The Contras have formally accepted the Guatemala accord, but are treating it with great reserve. Rebel military commander Col Enrique Bermudez has ordered his troops not to take the amnesty the Sandinistas have offered and Mr Robelo is not rushing back to Nicaragua to organise his political supporters. He hopes to be home by November 7.

The Contras, meanwhile, are demanding negotiations with the Sandinistas to arrange a ceasefire, but the Sandinistas havesteadfastly refused such talks and instead have unilaterally declared four small ceasefire zones in which they hope to persuade individual Contra field commanders to accept an amnesty.

"We will talk to the people who are sending the guns, the Reagan Administration, or to the people who are firing them," a senior Sandinista official told reporters. "You can rule out talks with the Contras' so-called leadership."

EX-CONTRA BOSS RETURNS

Mr Edgar Chamorro Coronel, a former Contra leader, returned to Nicaragua Monday night, bearing the amnesty offered under Central America's new peace plan, Peter Ford reports.

Mr Chamorro, once a leader of the Nicaraguan Democratic Force (FDN), is the highest ranking former rebel to come home. He told reporters after a flight from Miami that joining the Contras had been "a political mistake".

He said he had returned for a three week "exploratory" visit to contact old colleagues in the Conservative Party, and to gauge recent political reforms that the Sandinista Government has introduced.

The 56-year-old educational psychologist joined the FDN's seven member directorate in December 1982, when it was first reshaped under CIA guidance. He was expelled in November 1984, after publicly criticising fellow FDN leaders.

Peking meeting to set course of policy for decade

BY ROBERT THOMSON IN PEKING

THE CHINESE Communist Party yesterday began a series of high-level meetings that could see the passing of a generation of elderly leaders and set a policy course into the next decade.

The party's Central Committee held a plenary session here in preparation for the 13th party congress beginning on Sunday.

The committee formally approved the dumping of Hu Yaobang, the party chief who was forced to resign last January for allowing the spread of "bourgeois" ideas.

Curiously, Hu was among the leaders presiding over yesterday's meeting, as were several elderly officials who are expected to retire in the coming week.

They include Li Xiannian, the President, and Chen Yun, a senior economist.

Hu could be further humiliated at the congress by being removed from the elite politburo standing committee.

The meeting also approved the removal from the central committee of Shen Tu, 70, the former director-general of the Chinese airline, CAAC, after investigations into allegations of bribery and sexual indiscretion.

He was replaced in early 1985, after he had overseen the rapid growth in the airline's services but little improvement in the quality of service.

According to a party communiqué, yesterday's meeting was "conducted in an atmosphere characterised by democracy, unity and liveliness."

Despite the emphasis on unity, the party this year has been characterised by intense in-fighting, particularly after the dumping of Hu Yaobang and in the months leading up to these meetings.

Most of the congress's important decisions have already been made, with deals done to secure the retirement of elderly officials, who will have had much influence on the choice of younger officials to replace them.

The congress, which is expected to last about 10 days, is also likely to replace Hu as party chief with Zhao Ziyang, the present Premier.

Apart from the personnel changes, political reform will be the most sensitive issue to be discussed. The communiqué yesterday noted that party members have approved a document entitled General ideas on the reform of the political structure.

Last year, grand ideas were debated. These included the separation of party and government, but that was curbed by a campaign led by conservative Communists, who considered the suggestion a threat to party control.

The "general ideas" in the document yesterday would have been vague enough to keep reformers and conservatives happy.

India sends more troops into battle

INDIA THREW more troops into Sri Lanka yesterday but Tamil and diplomatic sources said Jaffna's outgunned Tamil Tigers might start slipping out of the shell-cratered stronghold to fight on in the countryside, Reuter reports from Colombo.

Thousands of Tamil refugees continued swarming into central Sri Lanka from Jaffna and some told reporters the heavily-mined northern port city was "one big booby trap" for advancing Indian troops.

Bullets and rockets had gouged the city's low-lying brick and mud houses and many dead bodies lay in the streets after running battles marked by massacres on both sides, they said.

Liberation Tigers of Tamil Eelam fighters urged the International Red Cross to investigate its charges of atrocities including rapes by Indian troops seeking enforce an Indo-Sri Lankan peace pact. India denies the charges.

Airline officials in New Delhi said India was sending in more soldiers against the LTTE, whose sarong-clad guerrillas hold Indian prisoners and refuse to give up a four-year-old armed struggle for an independent homeland.

They said between 4,000 and 6,000 troops came between Thursday and Tuesday to back 8,000 already deployed at Jaffna with heavy armour and at least 6,000 elsewhere.

John Elliott reports on a force renowned for toughness but bound by the rule book

Fear of mistakes hampers Indian army

The Indian army outside Jaffna: learning from its mistakes

INDIA'S proud and large army of some 1.1m people has only lost one war - against China in 1965 - during the country's 40 years of independence. But its experience, training and inflexible structures gave it little preparation for its present bloody conflict with Tamil Tiger extremists in Sri Lanka where it now has at least 17,000 troops, and maybe more than 20,000.

It has built a reputation for tough effectiveness by defeating its smaller neighbour Pakistan in three short wars since 1947, and by guarding India's long 15,200km of land borders, including the 219,000ft high Siachen glacier where major battles have been won against Pakistan in recent weeks.

But observers believe it does not have the flexibility and sensitivity to cope instinctively with new situations such as fighting guerrillas, despite considerable experience tackling years of insurgencies in India's far north eastern states of Tripura, Nagaland and Mizoram.

General Krishnaswami Sundarji, India's respected and outspoken chief of army staff, said earlier this year that over-centralisation and a failure to encourage initiative were the army's "significantly weak areas." He warned that "if we have an over-centralised set-up in peace, results cannot be expected as if by magic in war."

Judging by the progress the army has made with its assault on Jaffna, it has the capability to learn fast and overcome some serious mistakes of the past week or so, when it lost men by not preparing the ground before parachute drops and by not taking enough precautions against land mines.

India's army is the third largest in the world after the Soviet Union and China, but probably ranks fourth if the US Army total is expanded to include the Marines. It is also the world's largest volunteer army because there are no conscripts. Privates, known as *jawans*, are recruited between the age of 16 and 25 for a minimum of 15 years and make up much of what many observers say is an unnecessarily long administrative "tail" to the main fighting forces.

It is going through a period of rapid change, adopting new technologies and equipment, including 400 Bofors 155mm howitzer guns bought in a controversial $1.4bn order from Sweden. It has also recently formed Army Aviation to operate its own combat and transport helicopters for the first time.

In addition to a 150,000-strong Indian Air Force and 5,000-strong Navy, the army is supplemented with various paramilitary forces which total over 1m more people. The most important of these are the Central Reserve Police Force and the Border Security Force.

But there are also a number of other paramilitary groups, ranging from the Railway Police and Central Industrial Security Force to the Ladakh Scouts and the Indo-Tibetan Border Police.

The British relied especially on the loyalty and fighting skills of Gurkha and Sikh regiments, but also laid the groundwork for what is now broadly a secular army with each division being made up of soldiers drawn from all over India. When for example the army stormed the Sikhs' Golden Temple in Amritsar in June 1984, there were companies from Madras in the south, the Rajput warrior caste from Rajasthan, Biharis from north central India, and others from the Himalayas as well as Sikhs themselves, who make up about 10 per cent of the total army.

There is a similar mixture in Sri Lanka now where Tamil soldiers from the southern Indian State of Tamil Nadu are fighting Sri Lanka's Tamil extremists, just as Sikhs fought Sikh extremists in the Punjab. Such tensions are usually absorbed without difficulty, although there was a serious mutiny by a small proportion of Sikh soldiers after the 1984 Golden Temple raid.

Pay is low by international standards, but adequate when compared with low salaries of other Indian public servants. General Sunderji receives rupees 9,000 (about £1,500) a month, while a major general is on about rupees 6,300 and a colonel goes up to about rupees 5,000. On top of this there are various extras. An acting colonel has a three bedroom army house on a cantonment which has its own free school, plus a batman and monthly allocations of rice, spices and lentils. A full colonel moves on to a car with driver.

"The officers are very well informed about their army," says one foreign soldier who has trained with the Indian army. "They know more about the sizes and equipment of the army and the rules for carrying out a manoeuvre like crossing a river or attacking a post than most others in the world. But I do not think they are flexible at putting this into action. Their slavishness to their rule book, and their fear of ruining their career by making a single mistake, impedes initiative."

"Unfortunately, it has become part of our ethos - this fear of making mistakes," says General Sunderji. "It has prevented decentralisation of authority in peace, the development of leaders at all levels, and is the single most corrosive aspect which is ging to hurt us as an army."

Japan starts talks on navigation data system

BY IAN RODGER IN TOKYO

THE JAPANESE Government has begun negotiations with several Gulf countries on the installation of a navigation data broadcasting system to improve the safety of ships sailing in the area.

Two weeks ago, Japan announced that it would invest $10m to purchase and install the Decca navigation system, made by Racal Marine Systems, in the Gulf. The investment was part of a series of measures constituting Japan's contribution to the security of commercial navigation in the area.

Japan, which depends on the Gulf for more than 50 per cent of its energy supplies, had been under pressure from Western allies to do something. However, the Government's options were limited because Japan's constitution prohibits the use of Japanese forces or equipment in external military operations.

One of the attractions of the Decca system, from Japan's point of view, is that it will be totally automatic, requiring no on-the-spot operators and only occasional maintenance.

The system will consist of a series of transmitters - the Japanese say there will be from 20 to 30 - set up on towers at various points around the Gulf. All that the system does is to send out signals which enable ships to determine their location with a very high degree of accuracy.

When used together with broadcast information from conventional sources, such as the International Maritime Organisation on local threats to shipping, such as mines and military activity, it could be very helpful to civilian shipping.

The Japanese want to limit their role in the installation and operation of the system to a purely financial one. They hope that the six countries of the Gulf Co-operation Council will take the initiative, perhaps with the help of some non-governmental organisations, on the selection of locations as well as the construction and maintenance of the system.

Last week, the ambassadors to Japan of Saudi Arabia, Qatar, Oman, the United Arab Emirates and Kuwait were invited to a breakfast meeting with Mr Tadashi Kuranari, the Japanese foreign minister, and asked for their support. Discussions are also are being carried out by Japanese ambassadors in the GCC countries.

Japanese officials would not say how advanced were their contacts with Racal on the purchase of the system. However, it is not the sort of product that is mass produced, and so delivery may be some time away. Racal said negotiations were not sufficiently advanced to comment in detail.

Moscow assails US action

THE Soviet Union yesterday denounced in restrained terms the US naval attack on two Iranian oil platforms as "an obvious violation of international law," **Patrick Cockburn reports from Moscow.**

Mr Gennady Gerasimov, the Soviet Foreign Ministry spokesman, repeated a Soviet proposal previously made that "foreign navies be withdrawn from the Gulf and a UN naval force be set up replace the fleets of the non-littoral states in that region."

He said the Soviet Union had repeatedly warned that an escalation of the Gulf conflict was likely to happen, caused not only by the Iran-Iraq war but by the US military presence in the region. He said the US action was unacceptable "from the viewpoint of international law, politics and morality."

The Soviet spokesman repeatedly stressed that the Soviet Union sees the UN as the body most suited to organising international action in the Gulf. By becoming a participant in the Gulf conflict, Mr Gerasimov said the US was acting contrary to the UN resolution which it had sponsored together with the Soviet Union.

Soviet key to Mideast peace

By Andrew Whitley in Jerusalem

A TOP ISRAELI official said yesterday that there was "still a chance" of a breakthrough in the moribund Middle East peace process despite the gloom which has descended on the region after the recently concluded tour of Mr George Shultz, the US Secretary of State.

"The ball is now in the hands of the Soviets," said Mr Yossi Beilin, director general of the Foreign Ministry, looking ahead to Mr Shultz's visit to Moscow later this week.

Mr Beilin himself travels to London today for talks with British officials including Sir Geoffrey Howe, the Foreign Secretary, centring on the proposed international conference.

Reports in Israel yesterday suggested that Mr Yitzhak Shamir, the Prime Minister, has softened his adamant opposition to the conference proposal, for the first time paralleling a formal role for the Soviet Union in the peace process.

Australia-Fiji air links

FLIGHTS between Fiji and Australia are expected to halt from November 1 as a result of bans to be imposed by Australian airline industry unions, **Chris Sherwell reports from Sydney.**

The action comes on top of shipping bans imposed by Australian unions, and is being taken in protest at restrictions on union activity under Fiji's new military regime.

Three airlines will be affected: Qantas, Australia's state-owned airline, Air Pacific, Fiji's national carrier (for which Qantas has a management agreement), and Canadian Pacific.

But the unions indicated there may be room for exceptions to cover situations where people wished to leave Fiji or Fijian nationals wanted to return to their country from Australia.

The action follows the announcement on Monday that New Zealand is imposing sanctions against Fiji in response to the coup

WORLD TRADE NEWS

New talks planned on hormones in meat

By Quentin Peel

NEW TALKS between the EC and the US to try to resolve the looming trade dispute over the imminent European ban on hormones in meat products will be held at the end of the month in London.

A delay on the enforcement of the ban for imported meat after January 1, 1988 - for one year and possibly as long as two - is thought likely to be mooted by the European Commission, while it continues to insist that the ban as such will come into force.

The delay is seen as necessary to cope with the fact that EC member states have themselves introduced the ban at different times, meaning that although hormones cannot be used in cattle after January 1, they will be legally present in meat products for up to two years.

Commission officials would only confirm yesterday that various transitional arrangements might be proposed for the "technical problems" identified.

Japan electronic exports win EC tariffs reprieve

BY QUENTIN PEEL IN LUXEMBOURG

THE EUROPEAN Community yesterday put off for one month a threat to increase tariffs on six key Japanese electronic exports, in a bid to extract better compensation for Tokyo's trade gains in Spain and Portugal.

The 12 member states are demanding more generous market-opening measures from Japan for Spanish and Portuguese exports - such as citrus products, cut flowers and leather goods - in return for reduced-tariff access to their markets when they joined the EC last year.

The six products singled out for retaliation if negotiations fail are compact disc players, digital audio tape recorders, video recorder components, amplifiers, electronic organs and microwave ovens.

Officials insisted yesterday that the list was not final - there have been persistent rumours that motorcycles will be included, and compact disc players dropped - and was not discussed at yesterday's meeting of EC Trade and Foreign Ministers.

Instead the meeting simply decided that the current Japanese offer was not enough. Spain, which had been thought inclined to accept the offer, was persuaded to go along with the rest of the EC.

The Ministers have given the European Commission one month to seek a better deal, before they decide formally not to rebind the tariffs on the list of products in the General Agreement on Tariffs and Trade.

Mr Willy De Clercq, the EC Trade Commissioner, said that not rebinding the tariffs would "automatically" lead to an increase. They will go up from the present bound levels of between 6 and 9 per cent to the previous "autonomous" levels of between 13 and 19 per cent.

Commission officials insist, however, that the product list is not yet definitive. "There could be only three products, or there could be six" according to one.

The Ministers did succeed in agreeing on a new deal for Argentina in the wake of Spanish and Portuguese membership, providing more generous access for Argentine meat and up to 550,000 tonnes of bran.

They heard that parallel negotiations with Canada are stuck on the question of Canadian sales of wet cod to Portugal, which has been referred to the Gatt for arbitration.

EC endorses farm talks plan

BY QUENTIN PEEL

EC member states yesterday gave their blessing to a two-phase approach to international farm trade negotiations - starting with market-sharing deals - before attempting to dismantle the existing subsidy regimes.

The EC proposal - to be presented to the group negotiating agriculture within the new round of the General Agreement on Tariffs and Trade (Gatt) in Geneva - falls far short of the US plan to scrap all subsidies by the end of the century. On the other hand it is more detailed on how it proposes to get at least part of the way to such a goal.

Clear differences of emphasis emerged between the member states yesterday on how to tackle the whole problem of liberalising farm trade, but the present paper - merely a "contribution" and not a "negotiating mandate" - manages to reconcile them through ambiguity.

Mr Michel Noir, the French Trade Minister, put great stress on the need for "globality" in the Gatt negotiations, meaning that any progress on agriculture must be balanced by progress on other issues such as trade in services, and protection of intellectual property. He actually suggested that the agriculture proposals be held back until the European Commission had drafted its papers for those other areas.

Mrs Lynda Chalker, the British Minister of State at the Foreign Office, warned on the other hand against linking all elements of the negotiations too closely together, for fear of delaying the entire trade liberalisation exercise.

Mr John MacGregor, the British Agriculture Minister, went further, to indicate considerable British reservations about the EC proposals.

The European Commission paper suggests that in exchange for dismantling EC subsidies in key areas like cereals, tariffs may have to be raised on products like cereal substitutes and oilseeds. Any such move would be certain to invite instant US retaliation.

It also says that the current oversupply and subsidy war in the world markets should be tackled by agreeing on minimum price and effective market-sharing arrangements between major producers.

"We have criticisms, and I think we shall be arguing against some of these points," Mr MacGregor said.

GEC set for major phone deal in Ecuador

By David Thomas in Geneva

THE General Electric Company, the UK electronics group, is expected to announce soon its first major overseas order for the System X digital telephone exchange.

The order, which will be from Ecuador, is likely to be worth £15m to £20m for just over 60,000 lines of exchanges to be delivered during the next 18 months. It could lead to substantial follow-up orders.

The Ecuador deal, if confirmed, follows overseas orders for System X won this year from Colombia and China by Plessey, the company which developed the exchange jointly with GEC.

This suggests that System X is finally shrugging off its poor reputation in world markets, brought about in part because of former tensions between GEC and Plessey. GEC's only previous overseas order for System X was a small one from the island of St Vincent.

Earlier this month, the two companies announced they were merging their telecommunications equipment interests in a joint venture.

They are discussing the detailed implications for System X of this merger, which is likely to lead to reduced manufacturing costs and increased resources being channelled into their export effort.

Mr Tony Snoad, GEC's managing director for telephone switching, speaking at a major telecommunications exhibition in Geneva, said: 'We have put in a highly competitive bid to Ecuador on technical and price grounds, but I cannot comment further.'

Seoul forecasts export growth

By Maggie Ford in Seoul

SOUTH KOREAN exporters can look forward to growth next year of almost 16 per cent to a total volume of $51bn, the Ministry of Trade and Industry reported yesterday. The forecast follows news of a record monthly current account surplus of $1.35bn in September.

Last month's figure, following the serious labour unrest in August, underlines the minor effect the strikes have had on the economy. The surplus brings the accumulated current account surplus so far this year to $7bn, with $10bn in sight by the end of the year. South Korea had a current account surplus of $4.2bn last year for the first time since its export-led strategy began.

Last month's figures also marked the first monthly trade surplus of more than $1bn. The $1.1bn surplus reflects the beginning of the pre-Christmas period.

Norwegian contractor plans oil barter with Soviet Union

BY KAREN FOSSLI IN OSLO

THE NORWEGIAN offshore oil service contractor, Golar Nor Offshore, may supply the Soviet Union with an oil production vessel in return for oil in a potential NKr1bn to NKr1.5bn ($150m to $227m) barter deal.

Golar Nor Offshore, owned by the Norwegian industrial group Aker Norcem, and the international shipping concern, Gotaas-Larsen, has been in talks with the Finnish shipbuilder, Wartsila, about jointly supplying floating oil production services to the Russians.

Part of the scheme envisages building a production testing vessel at the Wartsila shipyard in Turku, Finland. "We are offering the Russians a service contract for oil production facilities in return for oil as compensation," said Mr Kaare Gisvold, managing director of Golar Nor Offshore.

Mr Gisvold said initially they would provide the Petrojarl 1 production testing vessel, which is working for Norsk Hydro, the Norwegian oil company, and would be available in 1989. The Petrojarl 1 would then be replaced with the new vessel, the Petrojarl 2.

"We are offering the vessel for oil field delineation work on a Russian offshore oil field in the Barents Sea, west of the Kolguyev Island onshore oil discovery," said Mr Gisvold.

"Positive interest has thus far been expressed by the Russians because this kind of joint venture fits into the new Gorbachev policy, and also meets the Russian need for quick convertible cash flow from oil," said Mr Gisvold, although he stressed that the project was in the discussion stage only.

The Russians have been exploring the Barents Sea since 1982 without making any discoveries.

Peter Montagnon in Taipei meets an advocate of exports from Asia

Taiwan defender set for long haul

MR James Klein, president of General Instrument of Taiwan, is a man who ought to understand the protectionist sentiment that has been building up in the US over the past couple of years.

Brought up in the steel town of Homestead, Pennsylvania, he recalls how, during his childhood, lights were turned on at noon, so dense was the smoke from the mills. The mills are all gone now, forced to close by cheap foreign competitions.

Yet the resulting economic desolation is not something which he believes should be used to justify protectionist attacks on efficient exporting countries like Taiwan.

Politicians who espouse protectionism in Washington make the mistake of assuming that regional and sectoral problems apply to the US as a whole. This leads them to oversimplify the case against cheap imports from countries like Taiwan, he says.

US companies like General Instrument are the largest foreign investors in Taiwan. Because about 75 per cent of their production is shipped back to the US, they are often accused of aggravating the US trade deficit with Taiwan, which reached a record $14.9bn in the first nine months of this year.

Yet, says Mr Klein, selling to the US is no longer the primary purpose of being in Taiwan. "Most of us are not just shipping to the US. We are selling back into Taiwan. Or we are selling to South-East Asia." Now the country's 14th largest exporter with net sales abroad of $300m last year, General Instrument was the first US electronics company to come to Taiwan 24 years ago. Its aim was to manufacture an electro-mechanical tuning device that would otherwise have become obsolete.

In those days the motivation was cheap local labour, which helped extend the life of the tuner by an extra five years. In the process, however, General Instruments "discovered" South-East Asia.

Today, with over 8,000 employees and 1m sq ft of installed capacity and a complete computer centre, it aims to compete in the Asian marketplace.

Admittedly the main market for its cable television equipment is the US, but it also sells semiconductors to Japan and computer equipment to Singapore. It is bidding to install cable television systems in Hong Kong and Japan.

Nowadays, says Mr Klein, the need for a strong physical presence in the region and a flexible local infrastructure in Taiwan far outweigh the no longer quite-so-low labour costs. "If that (cheap labour) were the only consideration, we would be better off in Gabon." He stresses that his company is only one among many, whose experience and motivation vary. General Instrument's Taiwan operation is far more important to the group as a whole than, say, the local operations of RCA. Some US companies will certainly unwind or curtail their investment in Taiwan if the going gets tougher.

Nonetheless, the basic attractions of Taiwan "haven't changed. As a matter of fact they have got better," he says, pointing, for example, to the freedom to invest in wholly-owned subsidiaries and to remit profits home in full.

General Instrument is in Taiwan for the long haul even if that means adjusting to new economic circumstances, and it does not regard itself as responsible for the US trade deficit.

Mr Klein believes that the US has been right to press the government of President Chiang Ching-Kuo to open the market to imported goods and services. "We need market access," he says.

What he criticises, however, is pressure from Washington on Taiwan to revalue its dollar, which has risen by over 25 per cent in the past two years. The US currency now fetches just less than NT$30 in Tapei.

Unlike countries such as Japan and Korea, "Taiwan is not targetting the US with a consolidated, well thought out programme of capturing the market." Its 50,000 export companies are mostly small-time assemblers who react to buying orders. The buyers will simply move elsewhere - to Hong Kong or Thailand - if Taiwan becomes too expensive.

But currency appreciation may bring some unintended problems in its wake. The US could be flooded with unwanted and controversial investment from East Asia. By squeezing Taiwan's economy, Washington could also upset the fragile process of democratisation now at work in Taiwan, an important political ally.

Critics would argue that, after 14 years in Taipei, Mr Klein is simply talking his own book. After all, Taiwan's overall trade surplus does amount to some 20 per cent of gross national product and its reserves at $68bn are the second highest in the world after Japan. Some currency appreciation is both inevitable and necessary.

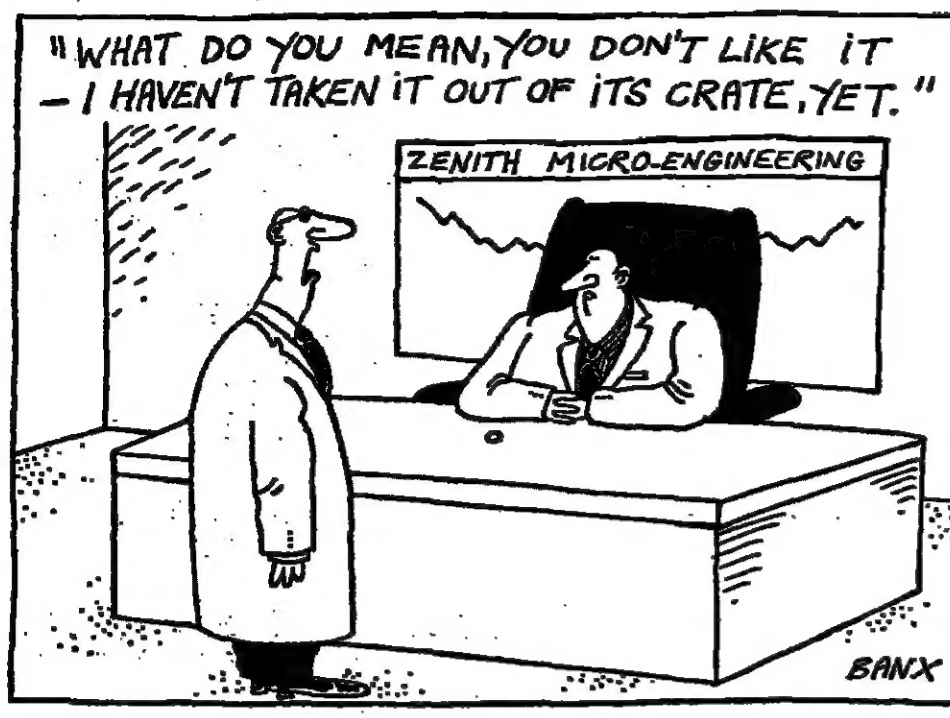
So far, however, notes Mr Klein, it has not had any noticeable impact on Taiwan's exports to the US, which grew by $17.7bn in the first nine months. Instead it has simply made local industry more efficient than before.

Taiwan can cope with currency appreciation provided the pace is not too rapid. What worries Mr Klein more is the fear that, in the absence of a shift in the trade figures, protectionist sentiment in Washington could grow to the point where, like prohibition between the wars, it is legislated by default.

Silicon products

Gathering pace of micro-engineering

David Fishlock reports on the mechanical possibilities of a material more noted for its electronic applications



IMAGINE a silicon chip that has moving parts - gears, cranks, slides, even actuators - instead of, or even as well as, integrated electronics. Such an "enabling technology" could open a host of new opportunities in micro-miniaturised engineering.

It is not a mere figment of someone's imagination. One could, in fact, find its way into the home early in the 1990s, in a new kind of gas meter no bigger than a brick.

Silicon, according to materials scientists, is now the best characterised of all engineering materials. Until now its electronic properties and the potential for packing ever more electronic functions into a given area of silicon have overshadowed the mechanical aspects.

Since the early-1970s, however, engineers have been exploring the mechanical properties of the silicon chip, with increasing excitement. In 1982, Kurt Petersen, then with IBM's research division in California, reviewed the technology in a seminal paper. It showed how the rapid fall in the cost of electronics through very large scale integration (VLSI) had produced a situation where the cost of associated mechanical parts such as transducers, sensors and "interfaces" outweighed the cost of the microprocessor which controlled them.

The big question was whether silicon fabrication technology might do the same for these mechanical parts as it had done for the electronics. As Petersen concluded, "we are beginning to realise that silicon isn't just for circuits any more."

In mechanical terms, silicon is an intrinsically strong material, prepared to unprecedented standards of purity and crystalline perfection, and to give highly reproducible properties. It has an elasticity close to that of stainless steel or nickel, and a hardness close to quartz. The same processes used to fabricate arrays of electronic functions can be used to fashion mechanically useful shapes with strengths exceeding the best alloy steels.

Just how rapidly silicon micro-engineering is advancing became clearer this year with the Transducers '87 conference of the Institution of Electrical Engineers of Japan, in Tokyo. The first pin joints, gears, springs, cranks and sliders made with silicon planar technology were reported by the Berkeley Integrated Sensor Centre of the University of California.

AT&T Bell Laboratories reported a micro-miniature air turbine with blades only 100 micrometres long, spinning at 24,000 rpm (revolutions per minute); as well as an attempt to make electrostatic motors of silicon.

Delft University of Technology in the Netherlands described an infrared sensor composed of an array of silicon cantilever beams only 10 micrometres thick. From Sweden came word of a micro-mechanical switch and multiplexer using mirrors of silicon.

The projects used a variety of different silicon technologies to achieve their ends.

The Berkeley Integrated Sensor Centre is an inter-disciplinary research centre of the kind Britain now proposes to set up at some of its universities, funded in this case jointly by the National Science Foundation, the University of California and US industry.

Long-Shen Fan, the senior researcher, and his colleagues reported what they claim to be the first fabrication of micro-scale pin joints and other mechnanical parts. They included pin joints batch-fabricated by silicon planar technology. The joints consist of a hub round which another member is free to rotate.

The mechanical elements are chemically deposited on substrates that can be cut away, leaving joints free to move.

In this way the researchers have demonstrated pin joints of the order of 50 micrometres diameter, and how they can be combined into crank or gear structures. But the mechanical elements are chemically deposited on substrates that can be cut away, leaving them free to move. They have made a gear-driven slide only 210 by 100 micrometres in size, as well as more complex structures, including levers and two kinds of pins joint.

Other examples include:

●Micro-turbine. An eight-bladed turbine only 600 micrometres in diameter, with blades 100 micrometres long, fabricated from silicon, has been demonstrated by K.J. Gabriel and co-workers of Bell's Holmdel Laboratories in New Jersey. The team says it foresees applications for small mechanical systems in micro-surgery, miniature tele-operators, automated assembly of small and fragile electronics, and to shrink the size of interplanetary space probes.

It cites speed, precision and resistance to dimensional changes with temperature among the advantages of micro-engineering systems.

The team fabricated its turbine by a standard photo-lithographic process, followed by plasma etching, to yield a smooth finish with little undercutting of the component. Separately, the team etched a well with a central post to receive the finished turbine. Once the turbine wheel was mounted on this shaft, it was sealed beneath a plastic cover, then coupled to a 5lbs per square inch air supply.

They noted that components of this size are very susceptible during assembly to electrostatical charges - "annoyingly common occurrences" - as well as draughts. One way of circumventing an assembly stage would be an integrated structure, they say, so they have shown how to make a gear that will spin freely on a post, in one piece.

●Silicon motor. The same Bell team is also exploring electrostatic motors - linear as well as rotary - of silicon, as another kind of actuator for microminiature mechanical systems. Such a motor needs no magnets - a considerable advantage in miniaturisation.

In this design, two separate silicon chips act respectively as rotor and stator. When placed face to face with their electrostatic pole faces in register a voltage between them makes the rotor move.

The researchers say rotor and stator need to be aligned very accurately. They found the two chips of a 5mm diameter electrostatic motor had to be aligned to within 4 micrometres, a precison which, they learned, "can be a achieved with patience and care."

Such a motor, driven at 130 volts between the two chips, will rotate at 6,000 rev/ min, producing a quarter of a watt of power.

●Boxed inclusion. Thorn-EMI central research laboratories have used silicon micro-engineering at the heart of a silicon flow sensor, developed as the basis for a new domestic gas meter. The prototype meter is currently being assessed in a project mounted by British Gas, which has attracted a score of submissions already, including entries from the US and Japan.

Thorn-EMI has a strong commercial interest in the outcome of this competition, because its Flow Measurement subsidiary has made about half the domestic gas meters currently used in Britain, says Dr Ken Gray, technical director. His laboratories at Hayes, Middlesex, include a new silicon engineering laboratory where the gas flow sensor has been invented.

The quest for a new meter was launched by British gas in March as a competition for an instrument, less conspicuous than the traditional model, to be in production by 1992. The specification says it should be about the size of a brick, but accurate, reliable and good for a 20-year life. It should also have digital readout to facilitate future ideas for remote reading

Gerry Clerehugh, British Gas's director of technology, says his scientists hope to make a selection by the end of this month.

WORTH WATCHING

Edited by Geoffrey Charlish

Ford goes more technical

THE GROWING importance of electronics in road vehicles is pointed up by the fact that Ford of Britain is building a £10m Electronics Technical Centre. It will form an important part of the company's £200m research and engineering centre at Dunton in Essex and is due to become operational by the spring of 1989. It will employ 90 people.

Since the mid-1970s, when specialist ignition systems and radios were about the only manifestations of electronics to be found in the production car, development has moved on to embrace transmission control, fuel systems, instrumentation and even electronic control of the car's suspension.

In another development at Dunton, Ford has just commissioned a "driveability test chamber." It is for environmentally testing vehicles, but unlike most such chambers which generally do individual tests, it provides heat, cold, humidity, wind and a rolling-road dynamometer so that every kind of driving condition can be reproduced at speeds up to 136 mph.

A sensitive package

FINDING OUT how packages or crates have been handled in transit is a frequent problem for any company. Now, this is being made easier and more accurate by Dynamic Test Systems of Ware in the UK.

This microprocessor-based unit, designated DHT-1000, records the date and time of each bump and can also log the temperature at regular intervals. In addition, it can record the height through which the crate has been dropped by measuring the minute changes in air pressure with an ultra-sensitive barometric sensor.

With integral, re-chargeable batteries, the unit can operate unattended for up to 30 days and record up to 990 events. The results can either be read out on the unit's small screen or can be sent to a computer or printer.

Analysing the pipework

BHRA, THE Fluid Engineering Centre, Cranfield, UK, is offering a computer-based pipe network analysis service aimed at the petrochemical, offshore, power generation and water industries.

Using software developed in conjunction with Amazon Computers, the system can predict fluid flow within a system, assess possible solutions to problems and review modifications that are contemplated to a particular design. Steady state, transient and flow balancing behaviour can be tackled, as can sizing and cost optimisation of the pipework components. A graphics system allows the centre's engineers to simulate a network very quickly, presenting the results in high quality graphical form.

A publishing collaboration

IN THE UK, Pira, the printing industry research organisation, and Cranfield Information Technology Institute are to collaborate in the provision of 'new technology' training for senior executives in the publishing, printing and advertising industries.

The move follows an investigation by Pira, supported by the Manpower Services Commission, which showed a serious need to step up awareness of the subject among British senior executives in this field.

Venturing with defence ideas

THE SUPPOSEDLY difficult task of winkling out commercially viable pieces of technology within Britain's Ministry of Defence and turning them into money-making propositions is well on the way to being solved by the two-year-old Defence Technology Enterprises (DTE) of Milton Keynes.

Set up by venture capitalists with the blessing of the MOD (this page, Sept 3), DTE acts as a kind of "middle man" between MOD and industrial companies and now has 25 technology transfer licences under its belt. It is also taking income from over 200 associate members who are able to gain access to developments at MOD's four major research establishments.

Details of some of the projects have just been released. They include a microprocessor development from the Royal Signals and Radar Establishment (RSRE), Malvern, a novel wood/rubber composite material with high impact resistance (Royal Aircraft Establishment, RAE), an efficient radar reflector for yachts (Admiralty Research Establishment), and a foamed anti-icing fluid which can be quickly and easily removed from an aircraft's structure immediately before take-off (RAE).

It has also been revealed that RSRE has a proven and patented technique for erasable optical memories. Optical memories, in disc or card form, have a storage capacity many times that of conventional magnetic devices and will almost certainly replace them in a decade or two. Although there are many non-erasable media on sale, no one has yet marketed an erasable type on a commercial scale.

Revitalising a telephone link

THE WELL-KNOWN boss-to-secretary telephone system, which used to be called Plan 107, has been re-vitalised with modern electronics by Plessey Communications Systems of Nottingham in the UK.

The complete kit, consisting of two telephone instruments and a control unit, retails at about £200. It will plug into any British Telecom socket and give a variety of features for small offices, business professionals, retailers or even residential users. Known as the N5107, the system connects two people, separated by up to 120 metres, with an outside line. It offers private intercom, a three way conference with the incoming caller, the ability to hold and transfer calls and a facility to avoid disturbing the boss when he or she is using the line. A more complex version, N5305, allows two or three exchange lines to be connected to four or five telephones.

CONTACTS: Ford of Britain: UK, 0277 253000. DTE: UK, 0908 660245. Terminal Display Systems: UK, 0254 676921. Plessey: UK, 0602 254822. Dynamic Test Systems: UK, 0920 821095. BHRA: UK, 0234 750422. Cranfield: UK, 0234 750111.

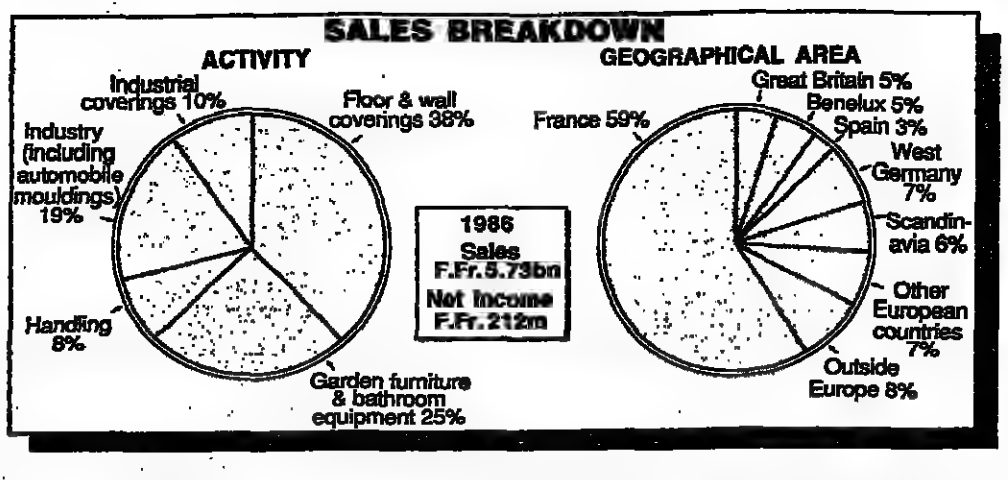
MANAGEMENT

Why Sommer Alibert thinks of variations on a theme

Paul Betts on the French group's approach to capitalising on its heavy investment

target europe

Sommer Allibert



BERNARD DECONINCK wanted to become a doctor but the war changed all his plans. By one of those strange twists of fate, Deconinck found himself 40 years ago making in-soles for the shoe industry. And it was while manufacturing soles that he suddenly came across the plastic processing business. "At the time we were buying plastic shoe-horns from another manufacturer and I suddenly had a revelation about the possibilities which plastic processing could offer."

Over the last four decades, Deconinck has transformed his company, Sommer Allibert, from a small concern employing barely 70 people into one of the leading European plastic processing groups which today employs 8,000 people. It has an annual turnover of about FFr6bn and profits of FFr212m last year and is expected to grow to FFr275m or more this year.

It is undoubtedly a French success story. But Sommer Allibert also provides a good case study of how a small French enterprise has managed to develop into a multinational group by adopting from the outset a European approach to business - and in the last few years an even more global strategy to expand into the US and the Far East from its solid European base.

The diverse nature of the company's products and their separate marketing and manufacturing requirements also provide insights into two radically different ways of tackling European and international development.

Sommer Allibert's activities can be broadly divided into two sectors. The first, which today accounts for about two-thirds of sales, are consumer products ranging from plastic floor and wall coverings, garden furniture and bathroom equipment.

The other, accounting for the remaining third of turnover, consists of industrial products, essentially plastic coverings for the automobile industry including carpets, boot linings, dashboards and head-rests.

"Until recently we were essentially European in consumer products with Europe accounting for about 60 per cent of our consumer product sales, and French in the industrial car businesses with the domestic market, mainly Renault and the Peugeot group, accounting for 85 per cent of sales," explains Michel Cognet, the general secretary of the company. "For this fundamental reason, our approach to these two businesses was inevitably different."

The most important characteristic of consumer plastic products is the heavy capital investment. "The costs are so high that we could not rely on the French market alone to ensure the necessary volumes to make our heavy investments profitable. Just consider the simple fact that to manufacture a garden chair which retails for only £5 or £6 you have to set up a completely automated plant to ensure volumes and competitive costs," says Cognet.

To capitalise on its heavy investment costs the company thus opted for an essentially centralised manufacturing structure in France. At present about 80 per cent of consumer products are made in France with 15 per cent, mainly for financial reasons, in Luxembourg and the remaining 5 per cent spread between the UK, Spain and Italy. To complement this centralised manufacturing system, the company established from the very start an extensive highly decentralised European distribution network which had some common elements but also catered to the specific needs and characteristics of individual markets.

"There are huge differences in, say, the French and West German markets for these products. West Germany puts quality before price while price tends to come before quality everywhere south of the River Loire," explains Cognet. This implies different stocking and quality control approaches and poses, on occasion, problems between the product requirements of a given market and the group's centralised manufacturing process.

This has forced Sommer Allibert to adapt products for specific markets. For example, the electric ingredient in some of the company's plastic bathroom equipment has had to be adapted for the UK market where electricity standards are different from France.

"Taste is another problem," says Deconinck. "The British like completely different colours from the French for their wall and floor coverings. We therefore have to make allowances by providing different colour ranges - which represent heavy additional costs."

Specific characteristics of individual markets also make it necessary in some countries to have consumer product manufacturing facilities. This is the case in the UK where Sommer Allibert has just started to make garden furniture closer to the large retail outlets in order to reduce transport costs and enhance the competitiveness of high volume low cost products.

Elsewhere, the company has acquired foreign manufacturing facilities to complement its overall range. For instance, in Italy it recently bought the rubber floor coverings activity of Ilgagoma. "This is a market dominated by the Italians and prompted our decision to buy the small Italian concern to fill a gap in our product range," says Cognet.

In Spain, he adds, the company also has two small floor covering manufacturing plants. "We invested in Spain because until recently Spain was a protected market. Now that Spain is a member of the EC these barriers are falling," he adds.

Compared with its consumer products businesses, Sommer Allibert is now adopting a far more aggressive foreign manufacturing strategy in its industrial product operations for the car sector. This follows the growing "Europeanisation" of the car components industry with major car producers increasingly looking for a limited number of strong components suppliers.

Bernard Deconinck: "British taste is completely different from French"

"This is a big change from the past when car groups relied on a large constellation of small components manufacturers. They are now looking for a restricted number of more powerful suppliers which are able to invest heavily in r and d and localise themselves near their plants," explains Cognet.

At the same time, car producers are becoming more European in their subcontracting policies, offering companies like Sommer Allibert opportunities to work with some other than those based in France. Thus, the company has decided to invest in manufacturing facilities in Spain, where it has already spent about FFr100m in new investments, and in West Germany, where it expects to invest between FFr200m-FFr300m. But a constant theme of Sommer Allibert's European and international development policy is its emphasis on decentralised management.

"Decentralisation and adapting management structures to a global approach is the golden rule of this house," says Deconinck. "Our group was formed by a series of mergers and acquisitions of small and medium sized companies. The company today is in fact a federation of about 60 small and medium sized enterprises. And the components which make up our group are highly decentralised and autonomous," adds Cognet.

This has been particularly true of the group's foreign subsidiaries. These offshoots are run by local managers who are responsible for handling all local issues from industrial relations, wage claims, legal and accounting problems, marketing and distribution. "Paris does not get involved but we maintain a dialogue and control these subsidiaries through their budget and investments," explains Cognet.

The company has, wherever possible, sought to be identified as a local company in all its foreign operations. "In Germany, for example, Allibert sounds like a good German company," remarks Cognet. But it is increasingly developing greater mobility between its French and foreign managers and is now considering establishing a special budget for language training.

The problem comes not so much from the younger generation of cadres but from the older ones with little foreign language experience and difficulty in learning a new language. "As we develop into an increasingly multinational group it will become increasingly important to develop a greater interplay between French and foreign managers," Deconinck suggests.

He does not believe that the unified European market of 1992 will bring about great change for Sommer Allibert. "The market for our products is already subject to intense international competition and we are not protected by specific standards in our field," explains Deconinck.

In any event, the group is already engaged in a major drive to expand in the US market as well as in the Far East. "For us at least, Spanish entry into the EC is as important if not more important than the unified market of 1992," Deconinck remarks.

The first article in this series was published on October 14.

A prototype for lighting up Europe

Clay Harris on Emess's market strategy

WHEN EMESS, one of Britain's fastest growing manufacturers of lighting fixtures and electrical accessories, had a bright idea about how to expand into continental Europe, it did not suddenly ping into the ether like a cartoon-strip light bulb.

The acquisition in September of nearly 25 per cent of Brillantleuchten, a West German lighting group, followed a year of careful planning. Emess's first excursion outside the UK was tailored to win the maximum benefits of cross-border co-operation while limiting financial commitment and exposure.

Emess chairman Michael Meyer sees the Brillant deal as the prototype for future ventures into other European countries. He plans to establish a confederation of small to medium-sized lighting companies, each seeking the advantages of scale in design, manufacturing and distribution while retaining its independence and identity.

The links, Meyer argues, should give all parties access to an enhanced product range to take into other export markets, especially the US, where sales of lighting fixtures were estimated at £2.7bn last year compared with £700m in the UK.

Rather than mounting a full takeover or buying majority control of any company, Emess wants to take substantial minority stakes and hopes its partners will reciprocate by holding Emess shares. This reflects more than just a desire to limit costs (although the Brillant stake cost less than £4m in shares, a small proportion of Emess's market capitalisation of £120m).

"We want to be represented in major European markets with local companies," says Meyer. Partners must continue to be managed by local nationals and perceived as local businesses, because Emess is convinced that the European market is best tackled country by country with a diversity of brands.

But even if they continue to give the customer the appearance of choice, few lighting manufacturers can now afford really to go it alone. New product ranges, for example, can take up to five years to repay the initial tooling costs. "We needed larger markets to accelerate our payback plan," Meyer says.

Emess was also looking for inspiration in design, Meyer frankly admits. With the UK market still unadventurous compared with those on the continent, Emess designers would only benefit by routine exposure to foreign counterparts.

In return, Emess could offer financial and manufacturing expertise which allows it to achieve better margins than Brillant despite the considerably higher unit costs and per capita spending on lighting in West Germany.

Each side would also be able to plug its new partner's products into existing distribution networks and benefit from joint sourcing in the Far East.

Emess charted its course across the Channel after failing to win Rotaflex, a British lighting group with considerable continental interests, in a bitterly contested bid last summer.

By the end of 1986, Emess had identified several West German companies as possible partners and approached several. It decided in April that Bremen-based Brillant was the right one and began five months of negotiations with the controlling Lippold family.

Brillant's share listing - since flotation in 1985 - was an attraction, as it allowed a relatively easy exit if Emess ever wanted to sell its stake.

The Lippolds welcomed the approach but were unwilling to sell more than a 20 per cent stake. "We asked them if we could buy shares (in the market)," Meyer recalls.

"They said they had no objection, but doubted if we would be very successful," because only 27 per cent of shares were outside the family's control. Emess nevertheless picked up another 4.6 per cent through Schroder Muenchmeyer Hengst, Lloyds Bank's West German subsidiary.

Emess, which this month dropped "Lighting" from its name to emphasise that it was not neglecting electrical accessories, took advantage of the publicity attracted by the Brillant deal to mount a token private placing of shares in West Germany.

Meyer found overwhelming demand. Only seven institutions were allocated any of the 497,000 on offer. "It was a gesture to get them interested in our business," he admits. But he wants to repeat the pattern.

"As we take interests in other countries, I want institutions in those countries to become Emess shareholders." Already more than 5 per cent of Emess shares are held outside the UK.

APPOINTMENTS

New chairman for Horizon Travel

Following **Mr Bruce Tanner's** retirement, **Mr Ken Richards** of Bass succeeds him as chairman of HORIZON TRAVEL. Mr Richards is a member of the Bass executive committee, and is chairman of three other subsidiaries - Britvic Corona, Augustus Barnett, and Bass and Tennant Sales. Also joining Horizon Travel board as a non-executive director is **Mr Peter Scarlock**, Bass director of business development, and managing director of Standard Commercial Property Securities. Promoted to the main board are **Mr David Cockerton**, managing director, Horizon Holidays, and **Mr Bob O'Donnell**, managing director, Orion Airways. **Mr Michael Haighe-Webster**, a non-executive director, has resigned.

SYSTEMS DESIGNERS (SD) SOFTWARE TECHNOLOGY CENTRE has appointed as directors **Mr Roger Gilbert**, manager ADA division, and **Mr Kenwyn Wareham**, marketing manager. Mr Gilbert becomes director of ADA Development and Mr Wareham director of technology marketing.

SHEARSON LEHMAN BROTHERS INTERNATIONAL has appointed **Mr Andrew Fisher**, an executive director, as syndicate manager. He was previously executive director in charge of FRN trading and money markets. **Mr Peter O'Kane**, executive director of SHEARSON LEHMAN BROTHERS, has been placed in overall charge of the company's Scandinavian investment banking coverage.

Mr Brian Thompson has been appointed an operational general manager of the RENOLD GROUP. He was previously group finance director, and will remain on the main board. His successor is **Mr John Allan** who was formerly finance director of Mardon Packaging International.

Mr David Wyles, formerly south east regional director of Lloyds Bank, and **Mr Leslie Taylor**, who until recently was the solicitor in charge of litigation at Nabarro and Nathanson, have joined the board of KENT MESSENGER GROUP as non-executive directors. They replace **Mr Rodney Hews** and **Mr Nigel Taylor** who are retiring.

Sir Robin Napier has been appointed a non-executive director of DANE & COMPANY. He is UK representative of Rothschild Bank of Switzerland.

Lord Eden of Winton, former Government Minister, has been appointed chairman of GAMLESTADEN, the UK-based subsidiary of the Swedish finance house, Forvaltnings AB Gamlestaden.

STORAGE TECHNOLOGY has appointed **Mr Alan Swain** as sales and marketing director. He was previously employed by Harris Systems.

ANCIENT HOUSE PRESS has promoted **Mr Philip McKenley** to works director.

UNION BANK OF SWITZERLAND (SECURITIES) has appointed **Mr Kit Warner III** as director of sales responsible for the control and development of all fixed income sales activities. He was previously director and head of international fixed income with Kleinwort Benson. **Mr Michael Lehmann** has become director in charge of equities. Mr Lehmann was vice president-investment banking services at Goldman Sachs International in London. **Mr Geoffrey Woodward** has been appointed an associate director responsible for Canadian dollar trading. Mr Woodward joins from Chemical Bank International.

LONDON AND MANCHESTER GROUP has appointed **Mr S. McClean** as a director. He is responsible for the group's Stock Exchange and property divisions.

Mr David Ranan has been appointed managing director of AUTHORITY & CO., banking subsidiary of Authority Investments. He was manager of the London West End branch of Bank Hapoalim. **Mr Michael Woodford** has been appointed a director of Authority & Co, with special responsibility for the lending business. He was marketing manager at Greyhound Guaranty.

UK NEWS

Shares volatility upstages increase in bank lending

BY JANET BUSH

NEWS yesterday of a very substantial rise in bank lending in September had little impact on UK financial markets which were entirely focused on international events and another extraordinarily volatile day on Wall Street.

According to figures released by the Bank of England, bank lending rose by a seasonally adjusted £4.4bn ($7.39bn) last month, well above market forecasts of a rise of perhaps £3bn.

In more normal circumstances, such a rise in lending could have been expected to revive concern about excess liquidity in the economy and a possible boost to inflation.

UK government bonds fell about ½ point in an immediate reaction to the news. However, that brief movement was dwarfed by very large swings in gilt prices throughout yesterday's session.

Prices had started two points higher, then fell two points (including the half point after the release of September's money supply figures) and subsequently rose about four points during afternoon trading as US Treasury bonds surged six points at their opening in New York. Gilts then again dropped back two points.

The £4.4bn rise in lending last month compares with an increase of £2bn in August and an average monthly rise over the last six months of £2.9bn.

The Bank of England has for some time been concerned about the buoyant trend in bank lending and highlighted this aspect of monetary conditions when justifying the decision to raise base lending rates by a percentage point on August 6.

At the time that decision was taken, the authorities would have had some idea of the scale of lending during July which turned out to be a record £4.9bn, not very much higher than the increase last month.

However, the official attitude appears to be that yesterday's figure does not alter the authorities' view of monetary conditions.

There appears to be very little chance of a further rise in base rates in response to domestic monetary conditions, partly because sterling is bumping up against its official ceiling and, at least in the short term, because of the crisis on the equity market.

There were few official caveats to the bank lending figure although the Treasury yesterday pointed out that perhaps £0.5bn was due to the financing of takeover activity.

The officially-targetted narrow monetary aggregate, Mo, rose 0.8 per cent in September compared with its 0.3 per cent rise the previous month, taking its year-on-year growth rate to 5.2 per cent compared with 4.5 per cent in August. The Government is operating a 2 per cent to 6 per cent target range.

The widely watched broad money aggregate, M3, also rose by 0.8 per cent compared with its 1.5 per cent increase in August.

Labour review likely to back strike ballots

By Charles Leadbeater

THE LABOUR Party's review of trade union legislation is almost certain to reform party policy to include measures to ensure that unions hold pre-strike ballots, probably by giving a special industrial court the power to enforce fines.

Mr Michael Meacher, Labour's employment spokesman, said the party was likely to support a change in the law to prevent union funds from being seized, but it was likely to endorse a system of fines which could be imposed by a special court.

The committee will consider widening the definition of a trades dispute; eliminating the use of court injunctions in trade disputes; strengthening the employment rights of part-time and temporary workers; extending industrial democracy; and strengthening workers' rights in takeovers, including the possiblity of giving workers the right to block a takeover through a ballot.

Mr Meacher said the trade unions would be full represented on the review committees.

Kuwait sells Hays to senior managers

BY CHARLES BATCHELOR

MORE THAN 100 senior managers of Hays Group, the transport, chemicals and services company, are staging a £255m ($428.4m) management buy-out from Hays' present owner, the Kuwait Investment Office (KIO). This is the second largest buy-out to be staged in Britain and comes two weeks after the £715m buy-out of the MFI furniture group.

The KIO, the secretive company which manages Kuwait's billions of pounds of overseas investments, will retain a 25 per cent stake in Hays. It acquired Hays seven years ago to gain control of the valuable waterfront site it owned on the Thames between London Bridge and Tower Bridge.

Hays made a pre-tax profit of £28.5m on turnover of £606m in the year ended June 1987. The company is based in Guildford, Surrey and employs 5,000 people.

Its four main businesses are distribution and shipping; data storage and staff recruitment; chemical manufacturing and distribution; and equipment manufacture for the printing and converting industries.

The £255m purchase price comprises £100m worth of equity and a bank loan of £155m. Ten senior managers, led by Mr Ronnie Frost, the chief executive, have acquired shares in the company while a further 94 senior staff have been granted options although Hays refused to say what aggregate stake the managers had bought

The managers expect to seek a public listing of the company within the next two to five years. Mr Frost said the management team had been negotiating with the KIO for the past seven months and that, unlike many recent buy-outs, rival bids from trade purchasers had not been sought.

The deal was arranged by Electra Candover Partners, one of the largest management buy-out specialists in the UK. The equity part of the buy-out will be financed by the 30 institutions belonging to the Electra Candover Plan. They include the Prudential Corporation and the GE Pension Trust, both of the US, and the Globe and Electra investment trusts in Britain.

Slump in BP price threatens success of £7.5bn issue

BY RICHARD TOMKINS

The Government yesterday dropped the television advertising campaign for the £7.5bn ($12.6bn) British Petroleum share offer as a further slump in the price of BP's existing shares increased the likelihood that the issue could prove unsuccessful.

The Treasury, however, repeated its assurance that nothing would *stop* the issue going ahead.

BP's existing shares followed Monday's fall from 350p to 316p with a further tumble to 285p at yesterday's close. At that price, the existing stock costs 45p less than the 330p at which the new shares are being offered.

The dropping of the advertising campaign appears to reflect government concern that small investors should not be encouraged to subscribe for shares which could go to a sharp discount at the start of dealings if present market conditions persist.

Institutional investors were previously prepared to pay more for the new shares than the existing ones because the partly-paid status of the stock offered interest savings on the unpaid instalments and a relatively high yield.

However, they seem unlikely to pay a premium as high as 45p. If yesterday's price persists, a sizeable proportion of the £7.5bn issue could therefore end up with the sub-underwriters.

The Treasury says if the issue were withdrawn now, it would defeat the point of the underwriting exercise. It would also draw criticisms that the Government had acted to protect its City of London "friends" by protecting them from fulfilling their underwriting obligations.

One merchant bank which declined to take part in the BP underwriting has fiercely attacked the unprecedentedly low commission rate of 0.018 per cent agreed betweeen the underwriters and N.M. Rothschild, the Government's merchant bank adviser on the issue.

Sir John Nott, chairman of Lazard Brothers and a former Conservative cabinet minister, said it was financially imprudent to expect institutions to be at risk for a minimum of £100m worth of stock for a fee of £18,000.

"Driving down the commission rates like this may bring glee to the Treasury but it does not encourage prudent financial transactions," he said.

"The Treasury is being over-clever by getting the rates down. It is forgetting its wider responsibility for the general prudence of financial dealings in the City of London."

Mr Michael Richardson, managing director of corporate finance at N.M. Rothschild, said the Treasury had not been involved with the fixing of the commission rate.

"The *rate* of 0.018 per cent was the average level at which all the participating institutions bid in a competitive tender, so it was the underwriters themselves who fixed the figure," he said.

New issues delayed, Page 33

British Coal threatens to withhold NUM pay rise

BY CHARLES LEADBEATER, LABOUR STAFF

BRITISH COAL is considering witholding all or part of this year's wage award to the National Union of Mineworkers should the union continue its ban on overtime coal production.

Senior corporation executives said that witholding part of the 1987 pay rise, due in November, was under consideration.

Under the two-year pay deal agreed last year with the rival Union of Democratic Mineworkers, which was imposed on the NUM, the corporation is due to award a basic pay rise for 1987 linked to the rate of inflation.

British Coal will take legal advice on whether it can withold the pay rise to the NUM while increasing the rates for miners at pits where the UDM is in a majority.

The NUM began its coal production overtime ban more than four weeks ago, over management's refusal to agree that independent arbitration should form the final court of appeal in its revised disciplinary code introduced in March.

Under the code, a claim for unfair dismissal would be taken to an industrial tribunal.

MSC to lose top official and change its name

BY DAVID BRINDLE

THE MANPOWER Services Commission is to be renamed the Training Commission and is to lose Mr Geoffrey Holland, its top official, who has been closely identified with strategy in recent years.

Mr Norman Fowler, Employment Secretary, announced the name change, which is to be made because of the transfer of responsibility on Monday of JobCentres from the MSC to the Employment Department.

He also announced that Mr Holland, who has been with the MSC since its formation in 1973 and has been its director since 1981, was to move to the department as permanent secretary.

Mr Holland is to replace Sir Michael Quinlan, who is to become permanent secretary at the Defence Ministry. Mr Roger Dawe, the Employment Department's deputy secretary with responsibility for manpower policy, is to be the MSC's director-general.

Mr Dawe was chief executive of the MSC training division from 1982 to 1984 when he was closely involved with the introduction of the Youth Training Scheme.

The MSC will become the Training Commission on passage of the Employment Bill, which is expected to be announced on Friday, and under next week's re-division of functions its activities will be concentrated on training and retraining.

Mr Fowler said yesterday that the MSC name was vague and formal and had fostered little public awareness of its work.

Sir Bryan Nicholson, MSC chairman, is due to leave next month to become Post Office chairman.

Mr Fowler said that Sir James Munn, who chairs the Manpower Services Committee for Scotland, would take over as part-time MSC chairman for six months while the search for a permanent successor continued.

Mr Fowler pledged continued government support for the "basic concept" of the Job Training Scheme for unemployed adults, while admitting the scheme had been slow to get off the ground.

There has been speculation that the Job Training Scheme will be subsumed or bypassed in a pending shake-up of adult training schemes.

Only about 20,000 people are on the scheme, which was launched nationally in April with the aim of providing 110,000 places by the end of the year.

Nine groups compete for Channel train design

By Our Transport Correspondent

NINE design companies, three each from the UK, France and Belgium, have been invited to produce outline designs for the 186mph city-to-city trains which will use the Channel tunnel, expected to enter service in 1993.

The invitation was announced yesterday by British Rail, SNCF of France, and SNCB of Belgium, the three railway authorities which will jointly finance and operate the passenger trains.

The design companies are being encouraged to form a consortium along the lines of the three-nation grouping of rolling-stock manufacturers bidding for the contract to build the trains.

They will be briefed by railway executives in Paris next week and are expected to produce initial designs by early December, when a shortlist will be drawn up. The winner will be announced in January.

None of the railway companies has asked in-house designers to bid for the work.

The three governments involved are thought to be keen to avoid the complaints of favouritism which would be inevitable if the design work went to one of the railway authorities.

The companies involved are specialist designers of rolling stock. They are: DCA Design International, Pentagram Design, and Jones Gerrard of the UK; Design Programme, Bagnolet Cedex, and Plan Creatif of France; and IDPO, SPRL and IDEA of Belgium.

The trains will be built to the UK loading gauge, about 15 inches narrower than the standard continental gauge, to allow them to run on BR tracks from the mouth of the tunnel to London.

About 40 trains are expected to be ordered at a cost of some £10m each. Each will be have 17 coaches and be capable of carrying up to 770 passengers.

Initially, the trains will run from a number of UK cities to Paris and Brussels.

London Country bus operations to be sold

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

THE NATIONAL Bus Company, which is being privatised by the Government, has agreed to sell its four London Country subsidiaries for a price thought to be about £25m.

The sale is expected to be announced next week after formal approval from Mr David Mitchell, Transport Minister.

Analysts said the price appeared to justify the decision taken by Mr Rodney Lund, NBC chairman, to split up London Country to maximise competition and the return to the Treasury.

About 50 of the 72 NBC subsidiaries have been sold and outline deals are believed to have been struck on 19, including National Express, the long-distance route franchise.

Mr Lund declined to comment on the progress of sales before publication of NBC's annual report, expected next week.

The company is believed to be confident of disposing of all 72 subsidiaries by January next year, however - 12 months ahead of the schedule laid down in the 1985 Transport Act, which paved the way for privatisation.

The total value of the company is expected to exceed £200m, nearly double City estimates at the beginning of the process.

The North West subsidiary is believed to have been sold to its own management for about £3.5m; South East, now known as Kentish Bus and Coach, to a holding company set up by the management of Northumbria Motor Services, another NBC subsidiary, for around £3.2m; and North East to Parkdale Holdings and Mr Alan Stephenson, managing director of East Yorks Motor Services.

The property interests of the South West subsidiary have been sold for about £15m, and the bus operations to Drawlane, a subsidiary of Endless Holdings for around £3m.

Japanese to build £8m silicon plant in Lothian

By James Buxton, Scottish Correspondent

A JAPANESE company is embarking on an expansion programme at Livingston, West Lothian, which it expects will create hundreds of jobs over the next few years

SEH Europe, a subsidiary of Shin-Etsu Handotai, one of the largest makers of high purity silicon, is to start work next month on the first phase of a permanent production plant costing £8m.

It will produce silicon wafers for specialist applications and will later make wafers for the high-volume integrated circuit market.

The expansion of SEH Europe is a boost for Scotland's electronics industry. It means Scotland will be heavily represented in the full cycle of manufacturing from silicon wafers to finished products.

SEH Europe has been making silicon since 1985 at a temporary 18,000 sq ft plant at Livingston which employs 72.

The company said the expansion would not at first give rise to a significant increase in jobs but employment could build up to several hundred if further phases went ahead. The plant is being built on a 9 acre site which the company owns.

Nato frigate agreement delayed by split in MoD

BY DAVID BUCHAN, DEFENCE CORRESPONDENT

THE GOVERNMENT has delayed signing an agreement on the definition stage of an eight-nation Nato frigate project because of continuing divisions in the Ministry of Defence over the project's merits.

It was also reported that France might similarly abstain from signing the project definition accord for the NFR-90 programme at a Nato armaments directors' meeting.

The programme is designed to develop and build 50 frigates in common for six European countries, along with the US and Canada.

The UK's main concern is that the frigate hull cannot be properly defined until further work is done on the air-defence weapons system.

The UK remains part of two consortia, one led by the US, the other by France, to research the weaponry. However, these studies will not reach any conclusions for another 18 months to two years.

The split in the MoD takes the form of some ministers and top civil servants on the Procurement Executive saying that, because of the timing mismatch between ship and weaponry studies, the UK would be wasting its £8m share in the project definition and committing itself politically to spending much more on full development of the vessels later.

Others say that only by being part of the study can the UK keep the size of the frigate and thus the weapons systems from growing too large and unaffordable.

BT seeks lifting of curbs on dealings with Mitel

BY DAVID THOMAS IN GENEVA

BRITISH TELECOM has asked the Government to lift the restrictions placed on its dealings with Mitel, the Canadian telecommunications equipment manufacturer in which it has a 51 per cent stake.

Agreement by the Government could pave the way for greater sales of private exchanges in the UK by Mitel.

BT's request has been prompted by the agreement announced earlier this month by General Electric Company and Plessey, the UK's largest telecommunications equipment manufacturers, to merge their telecommunications interests. BT has welcomed the agreement.

Restrictions were placed on BT's relations with Mitel after a Monopolies and Mergers Commission investigation because BT dominates the installation of UK private exchanges.

The principal restrictions were: a quota on BT's purchases from Mitel for installation within the UK; no unfair cross-subsidies of Mitel by BT in producing apparatus for supply in the UK; and open tendering for all purchases of Mitel apparatus in the UK.

BT has now written to the Office of Fair Trading saying that the merged GEC-Plessey telecommunications company will be a dominant force in various sectors of the private exchange market in the UK.

It has asked the OFT either to remove the restrictions on Mitel or impose similar ones on the private exchange activities of GEC-Plessey.

Electricity industry 'must be split up for sell-off'

BY MAURICE SAMUELSON

THE OPPORTUNITY for introducing genuine competition into the electricity industry will be lost for this century if the Government sells it as a whole, it is claimed today.

The warning appears in a Centre for Policy Studies pamphlet purporting to explain a method of initiating the industry's outright privatisation during the present parliament.

Its authors, Professor Colin Robinson of Surrey University and Mr Allen Sykes, a Consolidated Gold Fields managing director, claimed last night that, unlike other privatisation formulae, their favoured proposal could go ahead in spite of the collapse of equity prices.

Their main concern, set out in their pamphlet, Current Choices, is that the Government might initially sell off only the area distribution boards and maintain the Central Electricity Generating Board pending further detailed studies.

They recommend an initial private structure, termed privatised transition to competition, which would lead "within a reasonable time" to competitive generation of electricity.

According to the document, that is "the only competitive privatisation scheme so far identified which meets the Government's criterion of being attainable in its present term of office, without risk of either serious disruption or eventual consumer dissatisfaction."

Current Choices: Good Ways and Bad Ways to Privatise Electricity. Centre for Policy Studies, 8 Wilfred St, London SW1E 6PL. £4.90 plus 30p p&p.

Editorial Comment, Page 24

Wessex favours water sale

WESSEX WATER has come out in favour of the Government's plans for privatising the industry, but with reservations.

The stance, disclosed yesterday in the board's response to the proposals, provides further evidence that ministers are in a more comfortable position as they complete flotation plans.

Sacked Hill Samuel pair join US bank

BY CLIVE WOLMAN

DREXEL BURNHAM Lambert, the New York investment bank dominant in advising on US mergers and acquisitions, yesterday said it was creating a European corporate finance operation in London led by Mr Trevor Swete and Mr Christopher Roshier.

The two men, respectively former head and deputy head of the corporate finance department of Hill Samuel, the merchant bank, were dismissed six weeks ago.

They had admitted conducting negotiations on the sale of their department to Barclays de Zoete Wedd. Negotiations between BZW and Hill Samuel later collapsed.

Mr Swete said yesterday that he and Mr Roshier preferred the challenge of setting up a department from scratch. They had received offers from 42 firms, many of them US banks, before accepting Drexel's offer.

Mr Swete said Drexel aimed to specialise in advising on cross-border mergers and acquisitions, which have recently increased, in particular those involving US and UK companies.

He said the stock-market fall also increased the attractiveness of debt rather than equity finance.

● Blue Arrow, the employment services group, and BET, the industrial group, last night said Mr Norman Tebbit, Tory Party chairman, had accepted non-executive directorships from November 1. He recently accepted one with Sears Holdings.

UK NEWS

Boeing 'has placed Awacs deal orders worth £72m'

BY DAVID BUCHAN, DEFENCE CORRESPONDENT

BOEING HAD placed contracts worth $120m (£72m) with UK industry since December when it won the £860m order to supply the UK with six Airborne Warning and Control radar aircraft (Awacs), Mr Mark Miller, company president, said yesterday.

Boeing pledged to provide offset work over eight years worth up to 130 per cent of the Awacs contract value, the highest offset offer ever made, it is believed. The offer clinched the deal in favour of Awacs against the UK-developed Nimrod.

Lord Trefgarne, Minister for Defence Procurement, yesterday warned of what he called the considerable UK governmental, parliamentary and public interest in Boeing's offset programme. He said he was sure Boeing would live up to "these expectations."

He was opening Boeing's offset programme office in Brentford, London.

He noted US domestic criticism of the offset commitment and said the US also required offset through a variety of Buy-American preference laws.

He said UK companies would win orders from Boeing or its US sub-contractors only if they could prove themselves better than competitors.

The Royal Air Force would like eight Awacs aircraft, to fulfil early-warning duties to the UK and Nato. Boeing has given the Ministry of Defence until the end of this month to order the extra two at the same unit-price as the original six.

The ministry, pushed hard this year for cash and in the middle of its annual costings exercise, has promised Boeing an answer in the next 10 days.

Mr Tom Manning, who will run Boeing's UK office, said an extra two Awacs with spares for all eight would push the company's offset commitment in the UK to between $1.5bn and $1.7bn.

Air UK extends cheap fares

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

AIR UK, the independent airline which is part of the British & Commonwealth Holdings group is extending to the rest of its domestic route network its cheap Skylink "fill-up" fares scheme which has been successful in generating traffic on Channel Islands routes this summer.

The airline flies extensive cross-country routes from such points as Aberdeen, Belfast, Edinburgh, Humberside, Leeds/Bradford, Newcastle, Teesside, Stansted, Norwich, Heathrow, Southampton and the Channel Islands.

It introduced a £19 single Skylink fare on the Southampton-Channel Islandss route last November, with a subsequent 39 per cent growth in traffic. Last April it pioneered a £29 single rate on the Leeds/Bradford to Belfast route producing a 26 per cent traffic increase.

From October 25, the airline is introducing single Skylink fares of £23 and £29, depending on the route, throughout the rest of its domestic system, resulting in reductions of up to £60 on normal economy air fares and making many of its fares cheaper than British Rail second-class rates.

The number of seats allocated to the Skylink fares on each flight will be limited, depending on the number of unsold seats on any given day.

Air UK is also offering a Skylink fare of £39 single on its Humberside to Amsterdam route. This compares with the Hull to Rotterdam ferry rates ranging between £32 and £56.

Commons security checks to be tightened

By Michael Cassell, Political Correspondent

SECURITY at the Palace of Westminster is to be tightened after the disclosure that a research assistant employed by a Labour MP had been convicted of the murder of an inspector in the Royal Ulster Constabulary.

Mr Ronan Bennett, whose conviction was quashed on appeal, was employed by Mr Jeremy Corbyn, MP for Islington North, to work at the Commons. Two weeks ago Mr Bernard Weatherill, the Speaker, said that Mr Bennett would no longer be permitted to enter the palace precincts.

Mr John Wakeham, Leader of the Commons, has made clear to Mr Harry Greenway, Conservative MP for Ealing North, that people will no longer necessarily be allowed to work at the Commons on the authority of MPs.

He told Mr Greenway: "We must seek to ensure as far as humanly possible that no member of the staff engaged to work at Westminster has a record which could lead to their being a threat to security there."

Mr Wakeham emphasised that no new Palace of Westminster identity passes would be issued to staff of an MP until a security check had proved satisfactory.

Peter Riddell previews the parliamentary session which opens today

Westminster facing stormy autumn

THE HOUSE of Commons returns this afternoon after its 13-week summer recess facing one of its busiest periods for many years, including the second reading of a dozen bills before Christmas.

The ceremonial Queen's Speech was delivered on June 25 after the general election so Parliament will soon start considering the meat of the Government's programme.

However, some time will first be spent catching up with the events of the summer, notably the consequences and costs for local authorities of last Friday's storms and the pressure for early firearms legislation following the Hungerford and Bristol shootings. There will no doubt be a flurry of activity about the BP share sale in the wake of the stock market fall.

The Government will also face calls for statements both about South African sanctions following the Commonwealth heads of government meeting and British-Irish relations in view of the rows over extradition from the republic and over the Diplock courts in Northern Ireland.

The three central measures in the Government's legislative programme - bills on rates reform, education and housing - are all due to published next month so will have their Commons second reading and be in their line-by-line committee stages before Christmas.

The main immediate attention is likely to be on the bill to replace domestic rates by a universal community charge, or poll tax. Not only are the opposition parties strongly opposed to the idea, but Tory backbenchers Sir George Young and Mr Robin Squire have already proposed a number of amendments to the plan.

From the other extremity, the Government is considering the unexpected calls at the Conservative Party conference for immediate implementation of the plan rather than the four-year phasing at present envisaged.

Overall, however, the Government is likely to face more problems on this bill - as with the education and housing measures - in the Lords next spring and summer than in the Commons this winter.

Before these bills appear the Commons will be busy with the second reading today of the paving measure to prepare the way for the full-scale bills next year on privatisation of the water and electricity industries. The fourth instalment of the Government's plans to reform trade union law will be published later this week.

Details of several controversial private members' bills, notably on abortion and official secrets, will also be announced over the next 10 days.

The Commons also has to decide a number of important internal matters. These include composition of the departmental select committees, the perennial question of televising the House's proceedings and Westminster security as well as controls on who should be given access to work there.

There are particular problems with two committees - those concerned with defence and with Scotland.

In the last two parliaments, the Labour members of the defence committee have been from the party's ever-decreasing multilateralist wing - most recently Mr John Gilbert, Mr Dick Douglas and Mr Bruce George - and there has been no difficulties about access to private Defence Ministry briefings.

However, Labour leaders want to include one or two from the majority unilateralist group in the Labour Party, both to replace one of the present members and to fill the extra place which the party is claiming as a result of its increased representation in the Commons after the June election. This is certain to provoke a row with the Tories, who are sure to argue that this might jeopardise committee work.

An angry confrontation is also certain over the Scottish select committee, symbolising Labour's frustration in Scotland where it now holds 50 out of 72 parliamentary seats, with the Tories down from 21 to 10. Membership of the select committees, however, is decided in relation to the composition of the Commons as a whole, rather than just the balance north of the border.

There is the further complication that the Tories have only five Scottish backbenchers, which would leave them in a clear minority if the Scottish committee remained at its present strength of 13.

The Government has a number of options. It could concede to the opposition a majority or recruit English members - both of which are likely to be unacceptable to the Government in view of the precedents created: Yet it is more likely to press-gang all five Scots Tories to sit on a smaller committee of nine.

Divisions across the parties, rather than between them, are likely in the debate expected before Christmas on televising the Commons. This was narrowly rejected two years ago and the balance may have shifted slightly given the smaller Tory majority, although Mrs Thatcher has already made known her reservations on the issue.

Aside from all these weighty questions, the main interest of MPs of all parties will be in whether the events of the summer have in any way changed the balance and mood in the House itself.

The SDP and the Liberals are obviously in no position to mount a strong challenge until they sort out their internal problems.

The Labour leadership is in better spirit than might be suggested by the party's election result but it is at the start of a wide-ranging policy review.

Nothing has happened so far to shake the Tories' self-confidence, or to undermine Mrs Thatcher's dominance of both the Commons and the UK political scene.

Freight transport body plea on road building

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

THE FREIGHT Transport Association, which represents 13,500 companies, has called for a radical change in the method used by the Government to assess the costs and benefits of building new roads.

In a memorandum to the Chancellor, aimed primarily at influencing the next Budget, the association says the cost benefit analysis procedure used by the Transport Department effectively ignores the benefits of new roads to industry.

A pilot study carried out by the association indicates that savings can be substantial: one company estimated that the completion of the M25 London orbital motorway would save it £2m over five years.

The association says inclusion of industrial benefits in the road planning process would substantially increase the projected rate of return, and should lead to greater government investment.

It calls for urgent research into how this could be achieved to ensure that roads yielding the greatest net benefit to society are given top priority.

The association also urges the Government to move quickly towards an increase in maximum lorry weights from 38 tonnes to 40 tonnes - the limit in all other EC countries except Ireland.

It acknowledges that this would require around £70m to be spent on bridge strengthening but says this one-off expenditure would be more than offset by savings of around £70m a year to the industry.

The marginal cost of coping with heavy lorries is, in any case, minimal compared with the existing requirement for bridge strengthening, it says.

This is estimated at £700m for local bridges, plus £100m for bridges on trunk roads.

Alcohol use defended

BY LISA WOOD

ALCOHOL SHOULD not be made the scapegoat for successive governments' failure to cut violence and halt the increase in crime, Mr Ivan Straker of the Scotch Whisky Association said yesterday.

Mr Straker, chairman of the association's public affairs committee, was speaking at the National Licensed Victuallers Association's annual dinner at which Mrs Edwina Currie, junior health minister, was present.

The Government has recently set up a ministerial group to study alcohol misuse.

Mr Straker said: "The causes of violence and crime are complex and deep seated; declining standards of morality, lack of discipline in the family and in schools, unemployment, inner city deprivation and, of course, television.

"Blaming it all on drink may be very temptingly easy but it will not provide a solution."

UK NEWS

Banks to spend £13m on initial stages of Eftpos

BY ALAN CANE

THE 11 clearing banks are to spend more than £13m on initial stages of the national cashless shopping system, likely to be launched at the end of next year.

Mr Brian Allison, managing director of EftPos UK, a company set up jointly by the clearers to implement the system, said contracts had been let to key suppliers in the US and UK for the system's essential elements.

Cashless shopping - electronic funds transfer at the point of sale - will allow shopping with plastic cards instead of cash or cheques.

Mr Allison, speaking at a Financial Times conference on electronic financial services, said:

● IBM was supplying the systems management computers and fault-tolerant machines to process actual transactions.

● Applied Communications of Omaha, Nebraska, had contracted to supply special software to run the system in a deal worth several million dollars.

● CAP, the UK software house, would test the software.

● Plessey Crypto, the UK electronics company, would supply security sub-systems for the cashless-shopping network. Mr Allison said messages passing across the system would be coded using an advanced, sophisticated method called public-key encryption.

● British Telecom was developing a network to connect retailers to its high-speed network, and the EftPos processing centre for the inaugural service would be based at the Bankers Automated Clearing Service site in Edgware, London.

● Initial orders for 1,000 retailer terminals were to be met, half each, by Ericsson Information Systems UK and Omron Terminals UK.

These announcements were the first EftPos has made formally since the clearing banks, after long negotiations, agreed a firm policy for a cashless-shopping system at the end of last year.

Meanwhile, the leading banks have progressed their own experiments. The largest is Barclays's so-called PDQ trial.

Mr Robert Woodman of Burton Group, chairman of the Retail Consortium's electronic funds transfer policy committee, said retailers backed a single, national system. They did not want a plethora of systems competing for counter space.

Co-operation 'not a client-loss risk'

BY ALAN CANE

FINANCIAL INSTITUTIONS could share the huge costs of developing so-called utility electronic services, such as cash-dispenser networks, without risking their competitive position or loss of customers, the Financial Times conference in London was told.

Mr Rob Farbrother, chief executive of Funds Transfer Sharing, part of the Link cash-dispenser sharing network, told delegates that pride and a belief that one's customers had to be protected from the competition were the chief reasons for go-it-alone decisions.

However, he said: "Co-operation and sharing of costs does not lead to losing one's own customer to a competitor. I have yet to hear or witness a customer switching loyalty on the basis that he or she used another organisation's automated-teller machines."

Mr Jacques De Keyser, general manager of the Generale Bank of Brussels, Belgium, argued the same case for electronic funds transfer at the point of sale, so-called cashless shopping. He said: "Eftpos is not bound to affect customer loyalty nor to cause shifts in markert share, except in the corporate sector. The additional services should cancel each other out. Only quality and price can have any impact."

Mr Woodman of Burton Group quoted surveys which showed that what customers wanted from retailers - lower prices apart - was less time at the till and less time queueing.

It followed that retailers were in favour of systems which gave them a competitive advantage and provided the customers with what they wanted. However, he emphasised that Eftpos would be operated by retailers: "We want the right to determine the future of payments systems which we operate."

The continuing lack of complete unanimity between the banks and the retailers over details of the UK Eftpos system was illustrated by several edgy exchanges between Mr Woodman and Mr Bert Morris, head of management services at National Westminster Bank and chairman for yesterday's session.

Financial institutions in the west were paying lip-service to the importance of global financial markets without seriously considering the implications of the datacommunications involved, said Mr Ian Macleod, managing director of Logica Financial Systems.

FT CONFERENCE
Electronic Financial Services

A whole range of regulatory, security and network management issues remained to be resolved.

Mr Hector Robb, head of systems audit for Barclays Bank, dealt with the question of security in electronic financial services. He argued that systems security was a fundamental business requirement that had to be viewed alongside other fundamental requirements: "A weakness in security is an accrued cost, to be paid with interest at some future point in time."

He said competitive influences unless properly managed could have a serious impact of security and control, exposing businesses to financial loss and failure to meet objectives.

Another approach to security was outlined by Mr John Tunstall, general secretary of the International Association for Microcircuit cards, credit-card-sized pieces of plastic containing a complete computer system.

While accepting that microcircuit cards were more expensive than other kinds of plastic card, he said they were difficult for counterfeiters to copy and almost impossible for thieves to crack.

Mr Kenneth Hines, head of Citibank's Global Electronic Markets Products, said there was a revolution in the risk-management services of the global financial market, driven by technology, information and the speed with which information can be transmitted.

FT LAW REPORTS

Economic loss claim can be argued in tort

THE KAPETAN GEORGIS
Queen's Bench Division (Commercial Court): Mr Justice Hirst: October 15 1987

A CLAIM for indemnity for liability incurred in a chain involving ultimate liability for physical damage is arguable in tort, and the court will not set aside service of third party proceedings out of the jurisdiction on the ground only that such a claim is for economic loss.

Mr Justice Hirst so held when refusing an application by Cape Breton Development Corporation (Devco) to set aside third party proceedings issued against it by Skaarup Shipping Corporation, first defendant in an action by Virgo Steamship Co SA.

HIS LORDSHIP said that in January 1981 a shipment of coal was loaded on the Kapetan Georgis, a vessel owned by Virgo. Six days after sailing an explosion occurred on board, causing damage and loss of life.

The vessel was under time charter to Skaarup, which in turn had entered into a voyage charter with Burios Markos (BM), which in turn had entered into a sub-voyage charter with Otto A Mueller.

Deveo, a Canadian company, was the shipper of the coal.

An action was brought by Virgo against Skaarup as first defendant and BM as second defendant.

The claim against Skaarup was for damages and indemnity, for delivering the shipment and loading dangerous cargo. Skaarup, a US company, did not dispute the jurisdiction of the English court, and put in a defence.

It issued a third party notice against Devco, alleging that the cargo was shipped pursuant to a contract between Skaarup and Devco containing a Canadian statutory clause that the shipper of inflammable or dangerous goods should be liable for damages arising out of the shipment.

Therefore, it was alleged, Devco was liable to Virgo and if Skaarup were held liable,it was entitled to a contribution from Devco under the Civil Liability (Contribution) Act 1978.

In the alternative it was alleged that Devco owed Skaarup a common law duty to take reasonable care not to ship dangerous cargo, and in breach of that duty it had shipped excessively gaseous cargo giving rise to a liability to Skaarup in tort.

Devco applied under RSC Order 12 rule 8 to set aside the third party proceedings.

The burden was on Skaarup to show that the case fell within RSC Order 11 [under which a court can order service of tort proceedings out of the jurisdiction] and had a good arguable case against Devco; and that, as a matter of discretion, service out of the jurisdiction should be allowed.

Mr Glennie for Devco submitted that the claim in tort was hopeless because it was essentially a claim for purely economic loss which the law debarred. He said that Skaarup, being a mere time charterer, had no proprietory interest in the vessel, and therefore no proprietory loss.

He relied on two very recent authorities, *Candlewood [1986] AC 1* and *Leigh & Sillavan [1986] AC 785.*

In *Candlewood* the Privy Council held it was a common law principle that if a wrong was done to a chattel a person with a mere contractual, not a proprietory or possessory right in it, could not bring an action against the wrongdoer for injury to his contractual right.

In *Leigh & Sillavan* the House of Lords conclusively confirmed the same principle.

Mr Jacobs for Skaarup did not dispute the validity of the general rule. He submitted however that where, as in the present case, the relevant claim was part of a chain which originated in a claim for physical damage, the application of the general rule was completely at large, having regard to the earlier House of Lords decision in *Lexmead [1982] AC 225.*

In *Lexmead* plaintiffs claimed damages in respect of the death of relatives in a motor accident when a trailer became detached from the defendant's vehicle and collided with the deceased's car.

The Court of Appeal held that the retailers of the towing hitch were under a liability but were not entitled to pass it on to the manufacturers, on the ground that it constituted a claim for pure economic loss.

The House of Lords allowed an appeal on the footing that the retailers were not liable, and it was unnecessary to deal with the economic loss point.

However, Lord Diplock stated that he did not wish the decision to be regarded as approval of the proposition that "where the economic loss suffered by a distributor in the chain between the manufacturer and the ultimate consumer consists of a liability...for physical injuries...or liability to indemnify...for damages for physical injuries, such economic loss is not recoverable..."

That suggested that where the case was hallmarked by a physical damages claim somewhere up the chain, there was a strong case for not applying the general principle.

Indeed, it seemed that the passing down a chain of a claim for physical damages, might well not be properly regarded as a purely economic loss claim.

Mr Glennie submitted that any loophole which might have been created by *Lexmead* was closed by the two 1986 cases.

The 1986 cases, neither of which was concerned with a chain claim of the present type, really had no bearing on the point left open in *Lexmead.*

In that state of the authorities, Skaarup did have a good arguable case in law that the third party claim was open to it.

Mr Glennie also submitted that in point of fact the claim in tort was so weak and had so remote a prospect of success, that Skaarup was unable to show a good arguable case in fact.

He relied on the *Athanasia, unreported, 1978, Mr Justice Mustill,* in which Devco was successful and which arose out of an explosion on a vessel loaded with Devco coal.

It was however unwarrantable for Devco to seek to invoke a decision on one set of facts relating to an explosion in 1975 as the foundation for a virtually automatic assumption that the same result would be reached in relation to a a different explosion and set of facts in 1981. The outcome of the present case would depend on its own evidence.

Skaarup had a good arguable case on the claim in tort, in law and in fact.

Even if there had been no foundation for a claim in tort, Skaarup's alternative reliance on the 1978 Act was sound. Section 1(1) of the Act, which provided that a person liable in respect of damage might recover contribution from another person liable in respect of the same damage, created a cause of action in its own right. There was nothing in the Act to limit its scope to liabilities incurred in the UK.

In exercising its discretion whether to set aside the third party proceedings, the court took account of relevant other proceedings; the case's connection with Canada and the UK; experience already acquired by lawyers and experts common to the case and to the *Athanasia*; the alleged weakness of the case; inconvenience of the UK action to Devco; and the virtues of a single trial with all effective parties present and bound by the result.

Taking all those matters into account, the conclusion was that it was a proper case for service of the third party notice out of the jurisdiction on Devco. The application was dismissed. Leave to appeal was granted.

For Devco: Angus Glennie (Thomas Cooper & Stibbard)

For Skaarup: Richard D. Jacobs (Clyde & Co)

By Rachel Davies
Barrister

CORRECTION

In *Morgan Guaranty v Hadjantonakis, FT, October 16 1987,* the probable trial date set out at the top of the third column should read: Commercial Court - early 1990, not 1999.

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THE ARTS

Cheltenham Literary Festival

B. A. Young

The Cheltenham Festival always saves some of its plums for the last few days. On Friday of last week we had both the annual Shakespeare Lecture and the Cheltenham Lecture, for which the lecturer may choose any subject he likes. Professor Stanley Wells, head of the Shakespeare Department of OUP, did the Shakespeare. He spoke engagingly of the ways in which Shakespeare's texts have been popularised (and expurgated) between Lamb's Tales (1807) and Leon Garfield in 1985. George Steiner gave the Cheltenham Lecture: it was labelled "Constraints," and dealt powerfully with the need for self-censorship in writing. He took a Whitehousian view: when you can extract such emotion from the two letters "Ah," he said, why use four letters?

As if in rebuttal, the next day gave us another hearing of Chaucer's Miller's Tale, this time with delightful interludes of 13th and 14th century music on appropriate instruments. Chaucer spelt it differently, but there is a practical four-letter word at the base of that gaily improper story. On the other hand, Shakespeare's Venus and Adonis, read to wide approval by Imelda Staunton and Douglas Hodge, contains improper thought with no improper speech, more in line with the Steiner principle.

Sundry routes pursued by English writing were monitored. David Edgar gave an instructive demonstration of how he had dramatised Nicholas Nickleby that was interesting to compare with Charles Barr's film talk the previous week. Paul Foot (a great Festival hero) gave a characteristic talk on Richard Carlisle and the freeing of the Press. Iain Banks and Ian Watson, with Peter Nicholls in the chair, discussed the literary claims of science-fiction. Robert Eddison, Jill Balcon and Tony Robertson read from children's stories, partly in aid of the Opie Collection of children's writing.

There was an engrossing symposium on the historical novel, considered from divergent points by Melvyn Bragg, Timothy Mo and Peter Ackroyd. They have all written such books; Bragg is devoted to them, Mo says he will never write another, Ackroyd argues that history and biography are all a kind of fiction anyway. Chairing their discussion was Owen Dudley Edwards from Edinburgh, who had just run critically through the six books on the short list for the Booker Prize. I am breaking no confidence if I reveal that his vote went to Brian Moore's The Colour of Blood, with Peter Ackroyd's Chatterton the runner-up.

Even the more theatrical offerings had all a literary subtext. Brecht on Magic was an evening of fairly modest conjuring tricks by Ian Saville, against a background of chat with Brecht (a ventriloquist's dummy) and Marx (a portrait with a moveable mouth). Mr Saville is not only funny but well up in his subject, though as it happened my favourite line, which I will not quote here, came from his tape-recorder. Freddie Jones gave a grand pair of sketches about poet John Clare, first his account of his walk from the Epping asylum to his home, then his last long confinement in the madhouse, writing letters and poetry, believing himself to have two wives, to be Byron, to be in training for a boxing match. These got the most enthusiastic reception of any item in the schedule.

By way of a cheerful farewell, Humphrey Carpenter's 10-piece academic dance-band Vile Bodies played numbers from the 1920s and 1930s, with relevant commentary from such contemporary writers as Evelyn Waugh and Michael Arlen. The Festival's whole schedule, the work of Gordon Parsons, lecturer at Cheltenham's College of St Paul and St Mary, has been as entertaining as it has been devoted to its chosen theme of "Literature and Living."

Burn This/New York

Frank Lipsius

Lanford Wilson has come to represent, partly by default, contemporary American drama. If something has been lost in the long journey from the coffee shop hippies in *Balm in Gilead* (1965) to the restaurant manager, dancer, screenwriter and advertising copywriter in his latest play, *Burn This* (at the Plymouth Theatre), it is the sense of teeming life that has disappeared.

Tough sixties to effete eighties has come down to this story of unregenerate Pale who arrives in John Lee Beatty's fancy pin-ceiling loft to retrieve the possessions from his dead brother Robbie's flat. There he finds love with Robbie's roommate Anna, and mends his ways. Robbie was gay; so Wilson misses the possibilities in the conflict over violating the brother's memory. But he was Anna's dance partner, which breaks the ice between two characters who seem improbably drawn to each other.

The four characters in *Burn This* have the same old characteristics, but they are supposed to sustain a whole play and a long one at that. Two eloquent heart-felt monologues, which make the characters complete, understandable and sympathetic, come only in the second act.

That scene has menacing, gangsterish Pale (John Malkovich) emerging on New Year's morning in Anna's pink dressing gown to make a pot of tea, while setting his hair in a pigtail that might be a parody of some modern Japanese ceremony. Anna, a dancer (Joan Allen), with difficulty summons the words to expel Pale as he shows a sensitivity that previously had seemed beyond him. All the first act and first scene of the second presage this confrontation — a laborious process that used to take Wilson a gesture or a line.

If Malkovich's explosive Pale — sporting shoulder-length jet black hair, prancing, preening and full of pent-up rage — is supposed to give the play its unconventionality, he barely neutralises the overwhelmingly predictable role of Burton, Anna's well-born, screen writer boyfriend. He is little more than a goad to the Pale-Anna romance, though Jonathan Hogan instils the character with a likeable good nature and intelligent angst.

The final member of the quartet is the equally pat role of Larry as the androgynous eunuch who comments on the goings-on and finally pushes the play to its dénouement, setting up the reconciliation between Pale and Anna. As an avowed homosexual, Larry gets the best off-hand sarcastic lines in his voyeuristic commentary, portrayed with an enthusiastic perkiness by Lou Liberatore.

Director Marshall W. Mason, Wilson's long-time collaborator, has picked an outstanding cast from veterans of circle Rep, the company he and Wilson founded, and Steppenwolf, the Chicago company from which Allen and Malkovich emerged. But they failed to shape the play beyond a hackneyed old-fashioned romance that has the disadvantage of being unbelievable.

Television/Christopher Dunkley

Nostalgia rules the airwaves

The motto of British television drama departments is, presumably, "Another time, another place." The determination to avoid the sights and sounds, not to mention the achievements and problems, of present day Britain, and to hide behind a screen covered in steam trains, crinolines and vintage motor cars, becomes ever more pronounced.

If you had been living for the day when television drama offered you a close-up of a dark green 1936 Railton Fairmount Mark II drophead coupé, or the sight of a middle-class English family decked out, with obsessive attention to authentic detail, in the clothes and luggage considered in pre-war years to be suitable for Corfu (Burberrys, Clark's sandals with socks, solid leather suitcases) then British television is doing you proud this season. The Railton made a guest appearance in the opening episode of *The Charmer* on ITV, and the Corfu-bound family in the opening episode of BBC1's adaptation of *My Family And Other Animals*.

If, on the other hand, you feel that a mass medium as popular as television has some obligation in a form as popular as serial drama to deal with matters as profound as the social effects upon all of us of switching from a Butskellite welfare state to a Thatcherite free-market economy, then you may feel less happy.

As ever there are, of course, exceptions. This season BBC2 has screened Jim Cartwright's drama *Road* which is much concerned with unemployment and, in this version, set in what appeared to be an abandoned housing estate taken over by squatters. There was some splendid camerawork at the beginning (presumably shot with a Steadycam or some other gimbals mechanism allowing director Alan Clarke to produce extraordinarily free - flowing scenes as people walked the streets) but this was not enough to make up for such gratuitously repellant scenes as the woman French-kissing a man who had just been sick.

In present circumstances one would not necessarily want to condemn a writer for producing little more than an incoherent shriek of resentment. Indeed, television drama may be conveying too few shrieks of this sort from the have-not areas of Britain to the haves. It is significant, however, that this was a single play, and the single play is a theatrical phenomenon. Cartwright wrote this work for the theatre, and perhaps that is the reason it has already received such a disproportionate amount of attention from daily, Sunday and weekly papers.

If theatrical dramatists had ever thought they stood any chance of getting their audiences to go back to the theatre on the same evening each week to watch a serial then they would, no doubt, have started writing serials 2,500 years ago. Since they stood no such chance, the theatrical tradition developed via the single play. When television began it borrowed most of its ideas from elsewhere: news values from Fleet Street, documentaries from the cinema, light entertainment from music hall and — almost inevitably — drama from the theatre.

But time has shown that in television the serial's the thing. There was certainly nothing wrong with the single plays of Mercer, Potter, Loach, Garnett, Russell and so on, but television's "unique selling point" is its permanent presence in the home. It takes a series, and preferably a serial, to benefit properly from this U.S.P. and we have seen the possibilities in such adaptations as *Brideshead Revisited*, *The Jewel In The Crown* and *The History Man* and, even more importantly, in such television originals as *Edge Of Darkness*, *The Singing Detective*, *Muck And Brass* and *A Very Peculiar Practice*.

Even within serial drama there are exceptions to the steam train rule. For example, nobody could claim that ITV's *Bust* was evading the realities of Thatcherite Britain: bankrupt Neil Walsh with his endless sequence of shady deals involving cement, computers, land and so on, would be seen by some as typifying the spirit of the age. (Though the boyishly innocent Paul Nicholas looked and sounded mis-cast in the role.)

There are also the BBC1 series *Truckers* and *Pulaski*, both set in the present. The first is about an extremely doubtful haulage company, staffed entirely by actors and actresses who look the part. It has a very nice line in convoluted plot. To say that it is occasionally as slick and streetwise as the best episodes of *Minder* is a great compliment, and we have yet to see whether the standard can be maintained.

However, apart from displaying a deep cynicism about profits, the law, and private and public morals, the contemporary nature of *Truckers* is not of tremendous significance. Most of the stories (such as the use of a ladykiller Rollo to seduce the female tax inspector) would make just as much sense if transported to some other period.

Pulaski is more fundamentally part of the age we live in, being concerned with the making of a mid-Atlantic television detective series, but like *Truckers* it seems entirely concerned with entertainment. Heaven forbid that it should be condemned for that. But it is surely not unreasonable to hope that television might find a middle ground between the solely entertaining and the finger-wagging diatribe, where serial drama could explore the social realities of today's world.

It can hardly be a matter of television drama departments lacking the finance or the time, given that the past 10 days have seen the start of *Fortunes Of War*, *The Bretts*, *My Family And Other Animals* and *The Charmer*. So besotted are the directors and producers of all these with their period trappings that it is now virtually impossible for the viewer to remain unaffected by the obsession:

Wasn't that opening shot of a steam train in *Fortunes Of War* evocative? And not just one of the locomotives on the Bluebell Line (which we have seen in so many series that we know every piece of rolling stock by heart) but a real Eastern European train; must be co-production money here . . . oh definitely—here comes a real Hispano Suiza. For *The Bretts* it was a Daimler and an Austin (Six, was it?) and for the Durrells in *My Family And Other Animals* an unidentified maroon tourer.

Didn't you laugh when Mrs Durrell commented on the risqué style of her daughter's bathing costume — which was one of those huge thirties' efforts made of thick, dark wool? And what about those crêpe de chine camiknickers in *The Charmer* with the quaint white stockings held up by great thick garters. Did you manage without using the freeze-frame on the VCR to count the money as Nigel Havers took it out of his pocket? I made it £5.6s.4d — a white fiver, two half crowns, a shilling, a threepenny bit and a penny.

On the evidence of their opening episode, none of these series appears to be less than acceptable, and *The Charmer* seems to be an outstanding example of its genre — the period crime series. *Fortunes Of War* looks even better; probably the best thing that director James Callan Jones has ever done. Not only are Kenneth Branagh and Emma Thompson (so wonderful as Suzy Kettles in *Tutti Frutti*) showing uncanny maturity in portraying a young yet fragile marriage, but the casting throughout the rest of a very long list is spot on.

The fact remains that this is all escapism. We do, of course, rely upon television to provide escape from the tediousness of real life, and that has always been one of the functions of drama — but not the only one. Whether you look at the Greeks, Shakespeare, kitchen sink drama or Hollywood cinema you find that one way contemporary society valued it was according to its ability to offer an honest reflection and a commentary upon modern life. Today American television drama tends to do that and little else, while more and more British television drama turns to steam trains and crêpe de chine camiknickers.

Ronald Pickup in "Fortunes of War"

A Man for All Seasons/Savoy

Michael Coveney

Robert Bolt's 1960 account of Thomas More's resistance to King Henry VIII's new Church of England was the first play I saw on the professional stage. Perched high in the gods of the Globe I was mesmerised by Paul Scofield, enchanted by Leo McKern as the Common Man and hooked for life. I doubt very much if Charlton Heston at the Savoy will have a similar effect on any impressionable young schoolboy.

No two ways about it, this import from the Chichester Festival Theatre, Mr Heston replacing Tony Britton in Frank Hauser's politely old-fashioned production, is one monumental yawn. Much used to be made of the Brechtianism of the structure, but this now is a red herring. The Common Man's nudging asides and enquiries after our health (I'm glad somebody cares) are plain embarrassing, in spite of the ever-welcome presence of Roy Kinnear swapping hats and accoutrements.

This is not an epic, or even a small pageant. It is a tale of a good man's refusal to betray his principles and respect a false claim to religious supremacy. Henry wants to divorce the barren Catherine and sire an heir by Anne Boleyn. The Pope, and Thomas More, question his right to do so. As Lord Chancellor, More lays his career and his life on the line.

The political web around him is spun by two other Thomases, Cromwell and Cranmer, his plight surveyed and supervised by the Duke of Norfolk (a good contribution by Rowland Davies). More is spied on by the Spanish Ambassador, visited by the hale monarch (Martin Chamberlain, a likeable young artist scholar) who likes him enormously, and asked to trim his ideological sails by his devoted wife and daughter (Gwen Watford emphatically Welsh, Adrienne Thomas pert and nearly fetching as Meg).

Everything about the evening is a painful reminder of the play's status as a reliable standby for school and amateur productions. The language is dull, respectable and consistently sanctimonious. Which is how Mr Heston presents Sir Thomas. This man could never have been a saint because he is too dreary ever to have known what temptation is.

Even more puzzling is his hairstyle. The hair, in fact, is the only moving quality in the performance. Mr Heston's impressive silvery ginger thatch is plonked like a tea-cosy on top of a Mount Rushmore carving. It buckles and rears at the back like an unruly hedge and finally takes off altogether when its owner is locked up in prison, leaving Mr Heston to survive as he may with a snowy white, but equally wayward tonsure. Was that under the other one all evening? Having them both off along with the head must come as something of a relief at the end. You know what they say about recalcitrant saints: hair today, gone tomorrow.

1987 productions at Stratford

The final three productions of the Royal Shakespeare Company's 1987 season open in Stratford during November—*Measure for Measure* at the main theatre, *The New Inn* at the Swan, and *Cymbeline* at The Other Place.

Measure for Measure (opens November 11) marks Nicholas Hytner's first production for the RSC, with Josette Simon, Roger Allam and Sean Baker in the cast.

The New Inn (November 10) by Ben Johnson is directed by John Caird with John Carlisle, Richard McCabe and Fiona Shaw, and Bill Alexander directs *Cymbeline* (November 12) with Harriet Walter, David Bradley and Julie Legrand.

Angelus/Soho Poly

Claire Armitstead

"At your age I'll be a trillionaire, or I'll have topped myself," says no-hoper Mick to his no-hoper mother in Tony Craze's new play *Angelus*. She is wavering between hanging on to her crumbling Brighton flat or accepting the pay-off the developers have offered; he awaits the share-out that will buy him a plane ticket to America, land of opportunity.

The rub is that there is no such thing as opportunity for Mick, his mother, Mala, or the visionary, Ruth, who takes up residence in the deserted flat above and allows her new neighbours to imagine what they will of her. Ruth's clairvoyance and Mick's unlikely passion for a cheap tape recording of the Angelus are tokens of their yearning for something beyond the mundane reality that she is mad and he a petty criminal destined never to get his cut.

Both have been left standing by a new materialism which intrudes into their lives in the form of developers' letters and a hazy awareness of the wealth that exists elsewhere. Their dreams of escaping together to make a new start are doomed never to be realised. It is only the ageing Mala who, by the end of the play, has seen her way clear to negotiating with "the system" a deal that will at least keep a roof over her head. Opportunity, in this bleak picture of life at the bottom of the heap, is moving from a three-bedroom flat in Brighton to a one-bedroom one in Patcham.

Craze is good at portraying the complexity of relationships: Mick (Phillip Joseph) and Mala (Stella Tanner) seldom talk except to fight, but it becomes clear over the evening that she is more than a meal ticket to the son she cannot bear to lose. What are a little hard to take are the portentous allusions to "broken spirits, flattened souls" which fracture the dialogue — as if the lives of these three lonely people need reference to the errant spirituality of Graham Greene in order to hold their interest and their resonance (not by chance is the play set in Brighton).

Sue Dunderdale's production is set along a strip between two banks of audience, with frustrating loss of visibility for those near the ends. But the gracelessness of Michael Taylor's two-room set eloquently frames three performances which gain steadily in impact over the evening.

Phillip Joseph packs Mick with a nervy unpredictability, while Sarah Woodward has a wide-eyed stillness that gives Ruth an intriguingly ethereal aura. But the performance of the evening is from Stella Tanner, in whose voice lie a million fag ends, and in whose anger, indecision and final beseeching is a wealth of human experience.

Orchestre National de Lyon/Barbican Hall

Andrew Clements

Serge Baudo conducts in London regularly, but never previously with the orchestra of which he has been director and conductor for the past 17 years, the Orchestre National de Lyon. Its debut in the Barbican on Monday was sponsored by the Rhones-Alpes trade mission in London and a clutch of other French sponsors, one of whom offered concert-goers a sample of nougat to while away the interval. Something to chew on at that point was welcome, for the Lyon orchestra's programme was disappointingly insubstantial.

In the year that sees the 50th anniversary of the death of Ravel, an all-Ravel concert from a visiting French orchestra was a nicely judged homage, but not one that began with the *Rapsodie espagnole* and progressed (if that is the *mot juste*) to the *Bolero* via *La Valse* and the G major Piano Concerto. With flair and virtuosity the evening might just have come off. But though the Orchestre National de Lyon is a thoroughly effective and reliable band—continuing the impression of other recent French orchestras here that Malraux's renovations to the musical system in the late 1960s have now decisively permeated to the playing standards—and Serge Baudo is a highly musical and lucid conductor, the chemistry of the occasion lacked any element of surprise or excitement.

The *Rapsodie* — evenly unfolded, rhythmically subtle—was the most rewarding item, though even here a lack of firmness in the strings deprived it of Mediterranean clarity; *La Valse*, soft at the edges, carrying no dark undertow, emerged more like a genteel Frenchified *Blue Danube* than a vision of Scarbo let off the leash in a ballroom. For the concerto Jean-Philippe Collard suited the context exactly, never putting a finger wrong, but equally hardly charging the solo part with great intensity or colour — no mezzotints in the slow movement, nor *diablerie* in the finale. And *Bolero* was well, *Bolero*, presented by Baudo as a moulded symphonic poem rather than the austere process piece it surely is, and one moreover in which the orchestra on this occasion was not shown in its best light.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Theatre

October 16–22

LONDON

Antony and Cleopatra (Olivier): Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life, with Judi Dench and Anthony Hopkins as battle scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. Best of the rest at the NT is Michael Gambon giving his finest ever performance as Arthur Miller's doomed longshoreman in A View from the Bridge; Juliet Stevenson in a fine revival of Lorca's Yerma; and David Hare's production of King Lear, Hopkins, a massive gnarled oak, which gathers force and more friends as it continues in the repertoire (928 2252).

NEW YORK

Fences (46th Street): August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve lot but dogged by his own failings. (221-1211).

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

WASHINGTON

Breaking the Code (Eisenhower: Derek Jacobi brings his role of Alan Turing to America. Ends Oct 31. Kennedy Center (254 3670).

Joe Turner's Come and Gone (Kreeger/Arena): Tony Award winning playwright August Wilson turns in this play to a rooming house at the turn of the century where black people conjure up spirits that connect them to their heritage. Ends Nov 22 (488 3300)

All the King's Men (Arena): Adrian Hall's adaptation of the Robert Penn Warren novel explores the assassination of a demagogue during the Depression with music by Randy Newman. Ends Nov. 22 (488 3300).

CHICAGO

Red Noses (Goodman): The American premiere of Peter Barnes' medieval vaudeville comedy pits Father Flote (Ivar Brogger) against the plaque with his remedy of humour. Ends Oct 31 (43 2800).

TOKYO

Les Misérables. After London and New York, now Tokyo and the Japanese version of the Tony-award winning musical. The cast was handpicked by the creative team of producer Cameron Mackintosh (from an astounding 11,500 hopefuls), then trained for nine months in a special "ecole" and rehearsed by director John Caird. Costumes, set, sound, lighting have been supervised by the respective original designer flown in from London. Toho's Les Misérables is a triumph. The best production of a Western musical in Japan, it differs little from the original London version. Convincing and moving, this top-quality production shows what can be achieved with proper casting and training. Sponsored by the cosmetics company, Shiseido. Imperial Theatre, near Ginza. (201 7777).

Noh by Torchlight (takagi Noh). Ideal for the lovely cool autumn evenings, this threatre by firelight offers a rare chance to experience Noh in its original outdoor setting. The effect of strategically placed fire caskets around the darkened stage is perfect for its other-worldly atmosphere. Yoroboshi is about a reconciliation between a father and his banished son who becomes a beggar-priest, and is followed by the kyogen comic piece, Tsuto Yamabush. The pocket books A Guide to Noh and Guide to Kyogen (available at hotel bookshops), give the plots. Hibiya City Plaza, near Ginza. (Thur). (237 9996; 385 0393).

Saleroom/Antony Thorncroft

Degas could make £8m

Christie's can't quite match Sotheby's achievement in selling Van Gogh's "Irises" in New York on November 11 but it is making a brave effort in offering one of Degas' most famous images "Les Blanchisseuses," in London on November 30. The Van Gogh should top $20m; Christie's is being cautious in estimating the Degas at over £4m.

It should fetch much more. There are three versions of this celebrated painting (the one with one laundry maid yawning while the other gets on with the ironing) but this is regarded as the best. It has an excellent provenance, being sold by the Durand-Ruel family. It was Paul Durand-Ruel who first championed the Impressionists in the 1870s, and it has been in the family's Paris home since the 1890s. The official reason for its sale now is that the Durand-Ruels want to build up their unrivalled collection of contemporary art. The fact that the Gare d'Orsay museum in Paris has another version of the work (the third is with Norton Simon in California) has persuaded the French Government to allow such an historic picture to be exported. It should go for nearer £8m in an auction which also includes a £2m-plus painting—Gauguin's "Trois Huttes."

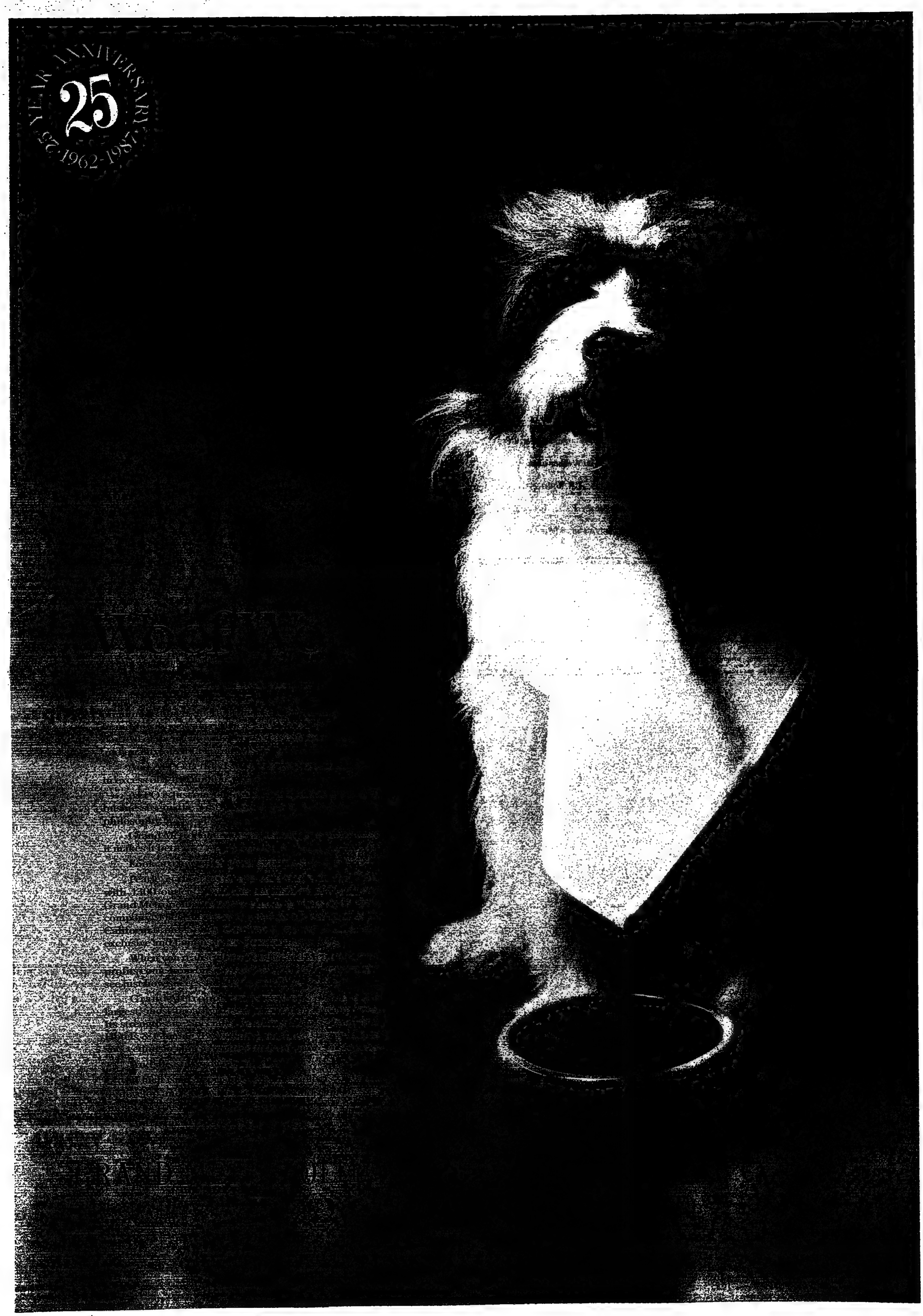
At Christie's yesterday a minor print sale yielded £104,404 with 9 per cent unsold. Top price was the £5,500 paid for 101 plates of Piranesi's "Vedute di Roma." Following its success earlier this year in selling Old Master prints the British Rail Pension Fund is off-loading some of its silver at Sotheby's on November 19th. In the 1970s, when inflation was raging and the Stock Market was in the doldrums, British Rail invested in fine art. Its example was not followed but if the experience with the prints is anything to go by it was not a bad decision. Now 28 lots of silver go under the hammer, including a pair of Queen Anne silver gilt salvers of the highest quality, made by Simon Pantin in London ion 1713: a price of up to £150,000 is anticipated. Other items expected to make £100,000, include a pair of Charles II covered vases by Thomas Jenkins and some Charles II candlesticks by Jacob Bodendick.

Sotheby's is still selling the contents of Mount Juliet in Co. Kilkenny in Ireland. Top price yesterday was £164,439 which was paid for each of a pair of paintings of assorted birds by Melchoir de Hondecoeter. They went way above forecast.

Arts Council appointment

The Arts Minister Richard Luce has appointed Professor Christopher Frayling as a member of the Arts Council to replace Sir Roy Strong.

An historian, critic and broadcaster, Professor Frayling is Professor and Head of the Department of Cultural History at the Royal College of Art.


25 YEAR ANNIVERSARY
25
1962-1987

John Wicks on Tito Tettamanti's threat to the Swiss engineer

Sulzer takes refuge in share register

SULZER BROTHERS, the Swiss engineering company, is in an embarrassing situation.

Between 30 and 50 per cent of its voting capital is held by a group of shareholders centred on Mr Tito Tettamanti, a Lugano lawyer, and while Mr Tettamanti stresses he does not plan a personal takeover of Sulzer, he and his allies want a say in the way the company is run.

The emergence of this large shareholder faction is relatively new to the Winterthur company, where the largest single stake has long been under 5 per cent. Sulzer says it is determined to maintain its independence and to "make use of all statutory, legal and judicial possibilities to this end."

What this means - at least initially - is that Sulzer is taking advantage of the fact that its entire voting capital is in the form of registered shares.

This popular Swiss equity category, which accounted in latest calculations for more than 32 per cent of total market capitalisation, carries the name of the holder and must be entered into a share register before it gives entitlement to voting rights.

Sulzer, which incidentally pioneered the (non-voting) participation certificate in 1963, is one of the few large Swiss companies with no bearer shares.

Warding off domestic takeovers

Until recently registered shares were seen primarily as a defence against takeovers by foreign interests. In the past year, however, they have proved particularly handy as a means of warding off unwelcome domestic bids.

The most highly publicised move of this kind took place earlier this year when Hero, the food products group, refused to register a large packet of shares held by Jacobs Suchard and thus sabotaged a planned acquisition by the big Zurich confectionery and coffee company.

Non-registration also saved Georg Fischer, the large Schaffhausen-based engineering group, and Usego Trimerco, the retail chain, from unfriendly - albeit Swiss - takeovers.

Sulzer's tactic, carried out earlier this month, was to limit to 1,000 the maximum individual holding which could be registered. Until May, this ceiling had been 4,000 shares (though applied "flexibly"), and since then had stood at 3,000.

Mr Tettamanti holds 3,000 registered shares, the equivalent of 1.5 per cent of total capital, while the group of investors who form a loose syndicate around him owns the rest of the 30 to 50 per cent "dissident" stake.

It is unknown just who these investors are, though they are believed to include important banks as well as numerous private investors.

What makes the Sulzer case particularly unusual is that about 22 per cent of the company's 199,000 registered shares are said to be "floating" and so are not entered into the share register in Winterthur.

Many holders of these shares will presumably have to remain disenfranchised in the light of the company's more restrictive registration policy.

Yet in the long run, such a large group of shareholders can hardly be ignored.

At the same time, there is a growing body of opinion in Switzerland that the institution of the registered share - apart from being insecurely anchored in equity law - could prove an undesirable brake on free stock markets.

At the time of the Hero episode, both the Zurich bourse and the Swiss Bankers' Association aired their misgivings openly.

It now looks as though Sulzer is experiencing the consequences. A direct line of communication has allegedly been established between the company's management and Mr Tettamanti and unconfirmed reports indicate that bankers may have applied discreet pressure on Winterthur for some kind of consultations.

Mr Tito Tettamanti - no newcomer to corporate power play

Mr Tettamanti, who keeps a low profile in his native Switzerland, is no newcomer to corporate power play.

Apart from his position as majority shareholder of Fidinam, a Lugano trustee firm, he controls and heads North Atlantic, a Cayman Islands-based financial group.

Last summer, North Atlantic's Panama subsidiary, Coniston North Atlantic International, bought a "strategic stake" of 20 per cent in Allegis, then the parent of United Airlines, Westin and Hilton International hotels and Hertz, the car rental group.

He also acquired, and subsequently disposed of, a 10 per cent shareholding in Martell, the French brandy group.

In the case of Allegis, he was instrumental in replacing the chairman and initiating the break up of the group.

With Sulzer, his argument has been a different one, namely that the stock has been much too cheap: when he bought his 3,000 shares last year and recommended "friends and acquaintances" to buy, he felt they were "the most undervalued shares on Swiss stock exchanges."

Even now, after a period of steady climbing, a recent price of SFr7,300 ($4,898) compares with Bank Vontobel's recent estimate of Sulzer shares' intrinsic value at SFr13,900.

With this in mind, Mr Tettamanti wrote to Mr Pierre Borgeaud, Sulzer's chief executive, in April making suggestions which the company says "concerned the capital structure of our firm."

These proposals apparently included recommendations for the creation of bearer shares, a split of extant registered shares, and the issue of rights warrants to current holders of registered shares and participation certificates.

When Mr Tettamanti approached the company this spring, he received a reply from Mr Armin Baltensweiler, the chairman, who stressed that

Suggestions on capital structure

board and management "concerned themselves constantly with the attractiveness of Sulzer equities." Mr Baltensweiler gave as an example the favourable drawing rights in a 1986 capital increase transaction.

It now looks as though the company may have to go rather farther than this toward Mr Tettamanti's point of view.

Indeed, goodwill seems to be growing on both sides. Mr Alfred Sulzer, the company secretary, has said publicly that any offer of co-operation "resulting from industrial impulses" would be carefully considered in Winterthur, while Mr Tettamanti has stated that he would support "any solution which is in the best interests of the company and its shareholders."

Such a solution would, however, seem to mean that Sulzer will have to demolish at least part of its registered share defences.

SULZER BROTHERS PERFORMANCE

	1986 SFr	1985 SFr	% change
Turnover	4,548bn	4,536bn	+0.2
Orders	4,630bn	4,780bn	-3.0
Cashflow	242m	211m	+15
Profits	67m	42m	+60
Parent company:			
Net profits	38m	26m	+44
Dividend per share	100	80	+25

Unbalanced market for executive workers

BY MICHAEL DIXON

THE QUIRKINESS of British employers is well known even to the most casual observer of the recruitment scene. Until this week, however, the Jobs column never suspected that they were not just eccentric, but perverse.

The evidence which has changed my view lurks behind the accompanying table drawn from the MSL International consultancy's quarterly counts of United Kingdom advertised demand for managers and key specialist staff. The quarter covered by the latest check was July to September, which the British obdurately regard as their summer.

In that period recruitment drops from the previous three months' level in almost every kind of higher-rank work. But there is an exception which seems to set UK employers apart from ordinary reasonable men and women who in the summer like to do pleasant things, and seek the society of folk who look on the bright side of life.

What employers do, on the other hand, is to *increase* their recruiting of accountants - one of whose trade mottoes, of course, is *"always look on the grim side."*

Had the employers acted like that solely in the latest summer, their deed might have been put down to an isolated fit of insane depression. Unfortunately the problem is more deeply seated, as witness the average changes in advertised demand between April-June and July-September over the past eight years.

The drops averaged 8.7 per cent for computer liveware; 7.5 for general managers; 6 for the research, design and development staff; 4.9 for the "Others" group containing a menagerie of specialists including buyers, lawyers, economists and such; 3.7 per cent for marketing and sales people - which was also the average fall for executive types as a whole; and 2.9 for production managers.

The corresponding figure for accountants was a rise of 2.3 per cent. Admittedly there was also an increase in one other of the table's categories. But it was of a meagre 0.1 per cent. And the fact that it was in demand for personnel specialists surely confirms that the people whose company UK employers seek in the summer are scarcely the healthy and normal sort.

The 1987 attack was unusually acute. The call for accounting and finance staff during July-September was the biggest since MSL began its checks 28 years ago - which might perhaps have had something to do with the miserable weather.

What is sure, however, is that the high market for accountants mainly explains why the total demand in the latest lamented summer was 8 per cent higher than in the same season of 1986.

UNITED KINGDOM ADVERTISED DEMAND FOR MANAGERS AND SENIOR SPECIALIST STAFF (12 months to September 30)

Type of work	86-87 Posts adver-tised	86-87 Change from 85-86 %	85-86 Posts adver-tised	85-86 Change from 84-85 %	84-85 Posts adver-tised	84-85 Change from 83-84 %	83-84 Posts adver-tised	83-84 Change from 82-83 %	82-83 Posts adver-tised	82-83 Change from 81-82 %
R & D	3,133	-26.5	4,263	-40.2	7,129	-5.4	7,538	+12.5	6,702	+58.3
Marketing	4,215	-2.4	4,068	-7.6	6,566	-5.3	6,932	+10.8	6,257	+24.5
Production	4,931	-4.3	5,152	-29.1	7,267	+7.4	6,767	+23.6	5,473	+38.1
Accounting	7,334	+15.2	6,368	-1.9	6,492	+9.6	5,923	+16.6	5,079	+17.2
Computing	3,358	-9.8	3,724	-13.5	4,304	+8.7	3,958	+45.8	2,715	+55.3
General mgt.	1,479	+15.8	1,277	-2.4	1,308	-0.4	1,313	+3.3	1,271	+12.4
Personnel	1,065	+16.3	900	-6.5	963	-8.9	1,057	+23.6	855	+44.2
Others	6,372	+16.2	5,484	-14.4	6,407	+16.4	5,503	+51.1	3,642	+21.9
TOTAL	33,887	+2.0	33,236	-17.8	40,436	+3.7	38,991	+21.9	31,994	+33.2
Oct.-Dec.	7,850	-8.7	8,596	-3.3	8,893	+3.9	8,560	+32.3	6,468	+29.7
Jan-March	9,166	+4.1	8,804	-24.3	11,624	+9.3	10,637	+16.9	9,100	+37.5
April-June	8,597	+5.2	8,172	-21.5	10,412	+3.8	10,034	+20.3	8,340	+49.2
July-Sept	8,274	+8.0	7,664	-19.4	9,507	-2.6	9,760	+20.7	8,086	+18.5

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Wednesday October 21

The policy response

AFTER THE fall of 22.6 per cent in the Dow Jones index on Monday, the crash of 1929 inevitably comes to mind. There are parallels too: the euphoria that preceded the decline; the overhang of deadweight sovereign debt; the threat of a major increase in protection in the United States; and, more seriously, the inability of the principal economic powers to follow policies conducive to international economic stability.

The key difference is that serious damage can still be avoided.

What mattered about the crash of 1929 was not the stock market decline itself, but the policy failures that were its aftermath. Now, too, it is not the decline in the stock markets that matters, but the response of the authorities.

The decline in stock prices would tend to have three economic effects: first, a sharp reduction in financial wealth and, correspondingly, a likely reduction in consumption expenditure; second, a similar deflationary effect on investment, because of the increased cost of equity finance; and third, some insolvencies among those engaged in financial markets. These adverse effects would, however, all be mitigated by the recovery in bond markets, if that is sustained.

External deficit

Stock markets are giddy creatures. They may promptly recover to the levels from which they have fallen. Failing such a *volte face*, however, deflation has become a greater risk and inflation a correspondingly smaller one than even a few days ago. This, in turn, means that restrictive policy, especially restrictive monetary policy, is less appropriate. The recommendation of a relatively easy monetary policy is reinforced by Bagehot's classic advice that central banks must supply liquidity in the event of a flight from illiquid assets.

More important still, the economic justification for what has happened lies in a lack of confidence in the ability of the major countries to pursue policies that are collectively rational. In particular, it has become increasingly doubtful whether a reduction in the unsustainable US current account deficit can be achieved without a sharp recession. Such a recession might be triggered either by an increase in inflation following further depreciation or, alternatively, by sharp rises in rates of interest aimed at avoiding devaluation.

In short, with the run of bad US current account results the markets have become aware that the prospect is either a failure to adjust the US external deficit, which would be bad, or a stagflationary adjustment, probably in both the US and the rest of the world simultaneously, which would be still worse.

What the authorities must do is to prove these fears unfounded.

The policy requirements of co-ordinated adjustment are already known, but the need is still greater. Also greater are the risks of recession. The surplus countries must, therefore, avoid any tightening of monetary policy, as should the US. The case for keeping interest rates low is made stronger by the need, in present circumstances, to avoid any difficulty with third world debt.

On the fiscal side, a credible announcement of compensating adjustments in the US, Japan and West Germany would do much to convince the markets that the required adjustment will take place smoothly.

Previous pretence

With the greater likelihood of recession in the US and the reduced desirability of a rise in interest rates, the balance of argument now moves in favour of a managed decline in the dollar. The level should be set where a satisfactory current account adjustment is far more probable than at present and private willingness to support the dollar correspondingly greater.

Provided such an adjustment in the dollar is seen to be controlled, rather than another outcome of uncontrollable market forces, confidence should not be further damaged. At least, confidence should not be any more damaged than by continuation of the previous pretence that exchange rates agreed at the time of the Louvre Accord were still appropriate.

Confidence in the dollar could be strengthened still more by willingness of the US to borrow in foreign exchange. However politically painful, this would do no more than recognise that a country which pursues the fiscal policies of the US cannot hope to sustain confidence in the value of its currency in the long term.

Finally, Congress too has a role. It should scrap almost all of the omnibus trade bill and give the Administration the negotiating authority it requires to conduct the Uruguay Round of multilateral trade negotiations to a successful conclusion.

The authorities must now face up to the challenge to do what so far has largely been talked about. What is not known is how the challenge will be met. That, in turn, will decide whether historians end up by discussing October 1987 in the same way as October 1929.

A phased plan for electricity

THE SHOCK to world stock markets this week is certain to raise important questions about the British Government's ambitious timetable for privatisation, and particularly its plans to sell off the electricity supply industry during this Parliament.

A pause for thought could be salutary, for the euphoria of a rising market seems to have driven the Government towards ever larger share offerings, with scant regard for the structural impact on the major public utilities being sold.

The Cabinet's decision, after the last election, that electricity should be sold off in less than five years has almost ensured that ministers and their officials would be hustled into a compromise solution.

Energy ministers have said that they would like to introduce as much competition as possible into the industry in place of the present state monopolies. They have recognised that privatising electricity whole like British Gas or British Telecom would require much more detailed regulation than they would like.

Power stations

The alternative, as numerous studies have suggested, is to introduce competition into the generating side of the industry. Then the costs of building and operating power stations could be kept in check, partly by the direct effects of competition, but also by the greater openness and transparency of the system.

However, as a study published today by the Centre for Policy Studies points out, any move to break up such a vast industry after 40 years as a state monopoly requires great caution. Power stations and the national grid have a high degree of interdependence; an imbalance could lead to cascading power cuts, or at the least significant inefficiencies of the system.

This does not mean that the Central Electricity Generating Board's arguments against being split up must be accepted; but they must be considered carefully. As the authors of the CPS paper say, a workable scheme for breaking up the board into perhaps four or five separate generating companies could hardly be devised in the timetable set by ministers, which requires decisions to be reached in the next few months. A break-up of the board would require detailed technical and financial analysis with maximum co-operation from staff and wide consultations with industry and the public, perhaps over several years.

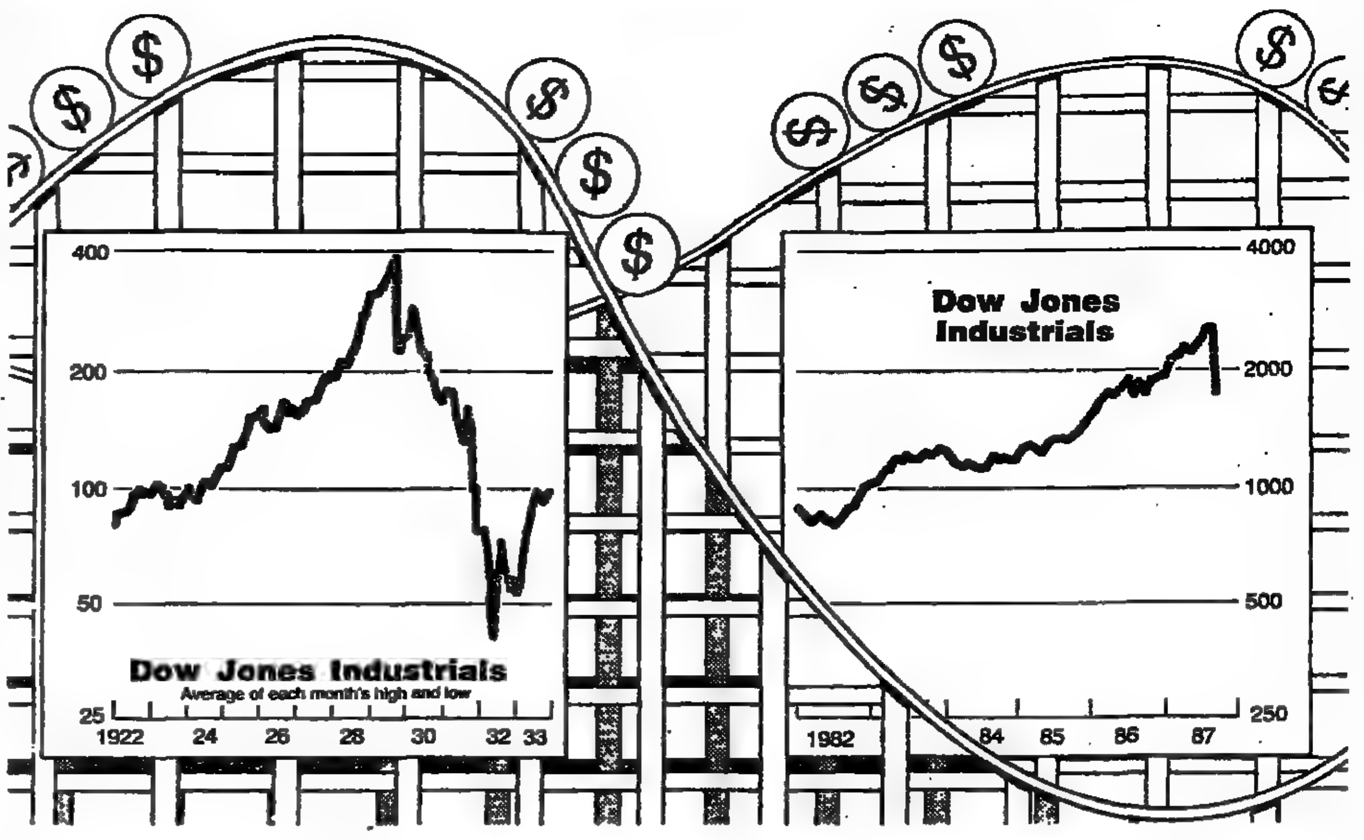
Regional companies

A compromise, suggested by the CPS paper, and being considered by ministers in a slightly different form, would be to do the job in two stages. The CPS proposal is to set up some five private regional distribution companies formed out of the present 12 area boards. These distribution companies would jointly own the present CEGB but only with a nominal amount of equity. The board would be financed almost entirely by debt owed to the Treasury. At a later stage these distribution companies would sell off groups of power stations into competing companies, perhaps leaving the nuclear reactors under joint or state control. This scheme has the great merit that it would allow competition to evolve over several years, while allowing some of the best co-operative aspects of the industry, like the "merit order" system for operating power stations, to be preserved. The main objection to a phased break-up is that it would be very complicated. Many of the complications could have been minimised if the Government had started serious preparations for restructuring the industry five years ago.

The fact that this time was wasted is no excuse for being driven into a second rate compromise now. The benefits of introducing competition into the industry could be considerable, but there are many technical problems to be solved and the penalties of an ill-considered scheme could be even greater.

With stock markets in chaos, **Anatole Kaletsky** analyses psychological causes and economic effects

Nightmares past and present



IN LATE OCTOBER, 1929, the US stock market fell 26 per cent in two days and then rebounded 12 per cent during the next day's trading. When Wall Street yesterday gained 200 points, or 11.7 per cent, within the first hour, history seemed to be repeating itself with a fine sense of dramatic irony. Just as computer technology had managed to squeeze two days of 1929-style horror into a single session of carnage on Monday, the electronic sell programmes were hard at work on Tuesday, generating an exaggerated sense of relief which felt as fragile as the jubilation on October 30, 1929.

As the market fell back rapidly to settle with a gain of less than 50 points by lunchtime, the parallels with 1929 seemed to be growing more, rather than less ominous by the hour. Of course, the chances of another Great Depression seemed negligible, as underlined by the promise of virtually unlimited monetary support issued yesterday morning by the Federal Reserve Board. But if a five point gain in the bond market, a percentage point cut in long-term interest rates and a soaring dollar would not suffice to underpin a powerful market rebound, what more could investors expect?

Effectively the same question was posed rhetorically on Monday night by every soothing commentator from President Ronald Reagan down: What had suddenly changed in the outlook for the US or world economies to justify a 36 per cent collapse in stock prices over eight weeks?

The answer, clearly, was nothing. There were, of course, the usual stubborn problems - the US trade deficit, the dollar and interest rates and the Iran-Iraq war. But nobody could argue that prospects on any of these issues had suddenly and catastrophically deteriorated. Unfortunately, however, the absence of a clear-cut economic explanation of the market collapse does not imply that it will prove a temporary aberration. For this is where a most important actor in the recent market drama, a character known as the Bigger Fool, comes in - or, more precisely, vanishes.

To anybody who has observed, or personally enjoyed, the great financial joy ride known around the world as the Bull Market of a Lifetime, the Bigger Fool is a familiar and, until recently, a much beloved sprite. He was, in fact, the genie who kept the roller-coaster racing ever-upwards. However high the markets climbed, however out of touch they got with corporate earnings, however bad the economic and political news, there was never any reason to fear. When all the problems came home to roost the Bigger Fool would be there, obligingly buying up every over-valued share dumped on him by the shrewd investor.

Some of the experts expected this friendly spirit to arrive in the kimono of a Japanese housewife, others foresaw the more familiar guise of a dentist from Brussels or a vet from Des Moines. But all seemed to agree that when the crash finally drew near, the Bigger Fool Theory would come smoothly into play, allowing canny professional traders quickly to take their profits and painlessly bail out before damage was done.

That, at least, was the consensus view on Wall Street when the Dow Jones Industrial Average closed at 2,722.42 on August 25. Today the Dow is nearly 40 per cent lower. The main reason is that August 25 was also the day when the Bigger Fool vanished without trace. When the market turned modestly downward in the days following that peak in August, it gradually became apparent that there was nobody much interested in buying the institutions' unwanted or "temporarily overvalued" stock.

Far from being more ready than the major investment institutions to bank on never-ending growth in stock prices, the hapless Japanese and the naive retail investors turned out to be at least as cautious as sophisticated fund managers. From early last summer, they wanted no part of a market whose only driving force appeared to be its own momentum.

The absence of the Bigger Fool became unmistakably obvious on Monday morning, when two thirds of the 30 stocks in the Dow Jones Industrial Average were still not trading more than an hour after the New York Stock Exchange's official opening. There were millions of sellers and no buyers.

This nightmarish experience of total illiquidity in what were universally regarded as the most readily traded corporate securities in the world - the common shares of companies like IBM and General Motors - was what created the psychological conditions for the panic selling which followed.

Now if the Bigger Fool Theory - or to describe it more elegantly, a state of complacency in which investors felt reassured by their own vigilant fears of an impending crash - was really a major force driving the markets this summer, then the question which needs to be raised about the crash is the obverse of the one put by President Reagan. The point is not to rationalise the stockmarket collapse, but to see how much was "rational" about the preceding upswing.

There are two broad ways of answering this question: in terms of fundamental economic forces and of the market's own historic trends and cycles.

The bullish view of US and world economic prospects is familiar and reasonably convincing, especially in the short-term. Growth appears to be accelerating, but not so rapidly as to raise serious dangers of inflation, and corporate profits are rising by about 17 per cent this year, with equal gains expected in 1988. The US manufacturing sector, in particular, is recovering rapidly because of the devalued dollar, and much of the prospective US economic growth is likely to come from higher exports.

To set against these favourable short-term prospects, there are the well-known longer-range dilemmas: the dollar and the trade deficit, the stalemate on the budget and the dilemmas of monetary policy with a new chairman at the Federal Reserve.

Now, it is arguable that two of these three problems - the trade balance and the dilemma of monetary policy - have sharpened in the last two months. The trade figures last week proved rather worse than expected and the threats from Mr James Baker, the US Treasury Secretary, over the weekend about devaluing the dollar certainly rattled international investors. Meanwhile, the past two months of financial chaos have certainly not enhanced investors' faith in Mr Alan Greenspan's talents as a monetary fine tuner. But none of these developments seem anything like significant enough to have aborted the bull market. There is another, much darker, cloud that could soon appear on the macroeconomic horizon, but that will depend partly on whether the bull market really has expired.

The stockmarket has always been considered one of the best leading indicators of turning points in the economy and if the market now enters a sustained downtrend, previous experience would suggest that a recession may not be far ahead.

In each of the 10 US economic cycles since 1929, the stockmarket peak has been followed, an average of six months later, by a recession. In no case has the lag between a market turning point and a recession exceeded 13 months. If a recession did take hold in the foreseeable future, the US budget deficit would probably soar out of control and the dollar would be all too likely to collapse as the Fed tried to support the economy with lower interest rates.

Indeed, if the stock market were looking for a disaster to happen, an early recession would seem to fit the bill much better than the inflationary over-heating which seems to have dominated the brokers' circulars.

There are two reasons for fears that the stock market crash could precipitate a recession well before the mid-1989 deadline which most forecasters now agree on.

The rapid growth of the US economy since 1982 has largely been a function of a mysterious willingness by the American public to spend practically all its income, devoting a much lower proportion to savings than at any time since the aftermath of the Second World War.

The stock market boom has been the most plausible explanation for the collapse of US personal savings. With stock market values growing almost fourfold from 1982 to the peak in August, it was hardly surprising that Americans felt less impelled than usual to save. But now that 36 per cent of the value of their equity savings has been wiped out, US citizens could well return to somewhat thriftier habits. The deflationary impact of such a change in consumer behaviour could be immense.

A second powerful deflationary force could be unleashed on the corporate sector. Many American companies have become extremely highly leveraged as a result of the mania for mergers, stock buybacks and corporate restructurings, which has itself made a major contribution to the bull market. The backing for the ever-growing borrowing has been the rising market value of the corporations' equity.

An extended bear market could lead to insolvencies among the many over-borrowed companies which have been planning to sell off overvalued assets to service their debts.

But all such economic analysis leaves the biggest question unanswered: why assume that this is the start of a bear market? With the Dow back to the 1700 level it last saw in March 1986, perhaps the groundwork is being laid for another glorious rally. Or is the market likelier to fall towards the low of 1087 it hit in July 1984, or even the 776 trough from which the current bull market started in August, 1982? History offers some clues.

First there is the valuation of shares relative to dividends and earnings. Every time that the dividend yield on the Dow Jones Industrial Average has dropped below 3 per cent, a bear market has followed. On August 25, the yield on the Dow was 2.59 per cent. The last time it dropped anywhere near this level, to 3.07 per cent, was at the top of the go-go market of 1973.

The price-earnings ratio on the Standard & Poors 500 index tells the same story. This figure was 23, based on current earnings, on August 25. The last time it traded above 16 before the latest market cycle was at the peak of the 1973 bull market. Apart from the late 1920s, the price-earnings ratio had never before risen as high as 24.

Corporate earnings are expected to grow 15 to 20 per cent next year, assuming no recession. But sooner or later a recession will hit and earnings will not go on rising forever. Thus, even valuing companies on the basis of sustainable prospective earnings never seemed likely, at the market's August peak, to reduce price-earnings ratios to traditionally acceptable levels. Why then did the market go on bidding prices ever higher?

At this point our friend the Bigger Fool makes an appearance, in his Japanese disguise. The Tokyo market values companies at anything up to 100 times their annual earnings, so why not assume that the Japanese will do the buying if US investors lose their nerve, the bulls persistently argued?

The Bigger Fool Theory also came in handy in dealing with the other historical objection to the market's unstoppable climb. After the events of the last few days, even the staidest commentators are talking about the resemblances between events this autumn and the crash of 1929. Strangely, however, the most outspoken bulls were never shy of bringing this comparison to investors' attention. They always thought a 1929-style debacle was likely. They simply argued that 1929 would happen in 1988, 1989 or even 1990; there would be plenty of time to take profits and leave the losses to the Bigger Fool when the crash hit.

In the event, it looks like 1929 has happened. At the end of Monday's debacle, the Dow was off 36.1 per cent from its peak of August 25, 55 days earlier. After October 29, the worst day of the 1929 collapse, the index was down 39.6 per cent from the record it had set 56 days earlier on September 3. Admittedly the bull market of the 1920s had been even longer and steeper than that of the 1980s. From August 1921 to October 1929, the Dow gained 495 per cent, against the 250 per cent it added in the five years from August 1982 to October this year.

But if this is a reason for predicting another huge surge in the bull market, with a target of 3,000 or even higher for the Dow, there is another, far more important, side to the 1929 parallel. From its peak of 381.17 in September 1929, the Dow fell to a low of 41.2 three years later and the market did not regain its 1929 level for 25 years.

Of course, the economic calamity of the Great Depression is most unlikely to be repeated even if the present collapse does turn into a prolonged bear market. And there will certainly be investors looking to buy shares at present "bargain" levels in the hope of a final 1929-style euphoric upswing. The bulls are almost certainly right to argue that economic policymakers have learnt from the mistakes of the 1930s. But then, so have the potential Bigger Fools.

Men and Matters

Early warning from the East

You have to hand it to the Japanese. They strive to be ahead even when the matter in hand is a financial Armageddon.

The Economist available in London before last weekend was carrying a full page advertisement in massive type . . . "Fujitsu is pleased to announce the end of the world . . ."

In Singapore, it was decided that a seminar entitled "How to stay a winner in the stock market" due to be held next Saturday will still go ahead. But the event was re-advertised under the title: "Stock market crashes: what should you do?"

In Sydney the situation was succinctly summed up by the emergence of stockbroker, Rene Rivkin, on the trading floor. Fingering his gold worry beads, he declared: "It's an absolute shambles."

Trading took place in an explosive atmosphere in Tel Aviv where an investor threatened to blow up the stock exchange after officials refused to halt frantic dealing.

In Cairo, the oldest stock market in the Middle East traded normally with dealers apparently oblivious to the world-wide chaos. In the dealing room a dozen brokers sat in comfortable chairs, quietly doing their average 10-25 trades of the day. "Our stockmarket is unique. Companies in Egypt are not listed anywhere else in the world," said a broker, Nassef Guirguis.

Storm forecast

There were lots more people around yesterday to say: "I told you so."

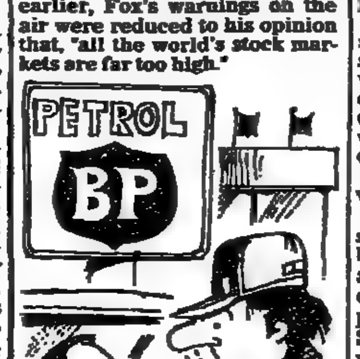
City journalist, Keith Sharp, for instance, published a book last July, entitled, "Tell Sid To Watch It", which, in its 150 pages, repeatedly warned newcomers to the stock exchange of the risks involved.

"Unfortunately," said Sharp, "the book only sold a few thousand copies, and there were millions of new investors."

Sharp's final chapter, pointing out that the markets had been rising all over the world since 1981, gave a warning that "there is no such thing as a risk-free investment". The danger was, he added, that when the fall came, "Sid will be trampled in the rush for the exits."

Last Saturday, W.B.Fox, a 75-year-old retired bank clerk who won second place in BBC Radio 4's unit trust competition, was gloomily predicting at the celebratory lunch a worldwide slump "any day now". Those remarks, alas, were not broadcast, nor the part of a recorded interview in which he recalled the 1929 crash.

Just like the Met Office's muted storm forecast some 48 hours earlier, Fox's warnings on the air were reduced to his opinion that, "all the world's stock markets are far too high."



"In the circumstances, I'd rather have the free wine glass please."

But pockets of optimism survived until a remarkably late hour. The latest report on the Hong Kong stock market from James Capel - traditionally the most brazen of the market's bulls - will take some beating.

The report, distributed on Monday morning, was headlined: "Buy: Buy More: Increase Weighting: Fill Your Boots: Buy."

Senior economist, Christopher Chong, had said he viewed the past week "with equanimity" and saw no reason to panic. He added: "If anything, more signs of a major surge are now in place."

BP selling well

BP may not be happy about its share price but, surely, there is no need to flog the family silver yet.

I see BP Oil has ordered a sale by tender of "brand-new" stocks, including heating and ventilation equipment, air conditioning units, light fittings, carpets and wall and floor tiles, wall coverings, and high quality office furniture.

Looks like BP management will find itself on the floor.

One of the few companies swimming against the fast-ebbing tide - and keeping its head above water, it seemed yesterday - was Blyth Software, a computer software outfit based in Saxmundham, Suffolk, which was floated on Nasdaq in New York on Friday.

The issue of 1m shares at $7 was oversubscribed by some 10 per cent. Yesterday, they were still trading at their opening price of $7.25.

Window-gazers

It takes courage to stand up in front of 500 people and talk about how to interest risk-shy Germans in buying shares at a time when world stock markets are plummetting.

Yet Jochen Neynaber, general manager of Schroeder Muenchmeyer Hengst, a Frankfurt bank, gamely did his duty yesterday. "Germans spend more money on flowers than on shares," he noted ruefully.

From the point of view of timing, the forum - a Euromoney conference in Frankfurt - could hardly have been better placed. On hand to hold forth about world capital markets were the Bundesbank president, Karl Otto Poehl, and a host of international bankers.

Not surprisingly, there were a few jokes about windows. Sir Patrick Sergeant, chairman of Euromoney, had some reassuring thoughts for delegates.

First, they could keep in touch with events through a Reuters screen in the foyer. Secondly, he added helpfully: "There are no windows to jump out of." Delegates managed muted chuckles.

Hitoshi Tonomura, president of Nomura International in London, said he had woken up to find the Tokyo market had slumped. "Then I was driven to our Frankfurt office, which is located on the 23rd floor."

" But, as you can see, I'm still here."

Only a game

Jordans Games demonstrated an almost eerie sense of timing with the launch of its new game called Stockmarket.

If anyone is left in the City of London by tomorrow (will the last trader put out the lights please?) the intention is to offer 500 sets of the game (discounted, of course) at an appropriate venue, the Arbitrager Bar, Throgmorton Street.

Stockmarket's backers promise, "All the excitement and misery of the market". Who could resist an offer like that?

Mr Fix-It

Pity the poor executive in financial public relations who took a call from a client yesterday during the great City slide.

"I've spent a packet of money during the last couple of years on your expensive services . . . Now I want my share price back at last week's level within the next 48 hours. Get on with it".

Observer

while in London Clive Wolman looks at the implications for the UK man in the street

Despite the scramble for shares, only a tiny proportion of household wealth is dependent on the market

Limited success, limited damage

IT IS fortunate both for the British Government's electoral popularity and for the health of the economy, that its drive to widen individual share ownership over the last three years has been much less successful than it would like to believe.

For if the stock market fall of the last two days had wiped out a large proportion of individuals' identifiable wealth, as the 1929 Wall Street crash did, there would have been a major knock-on effect on the economy. Individuals, feeling much worse off, would probably have cut back their spending sharply which in turn could have precipitated a recession.

In fact, a Treasury and Stock Exchange-sponsored survey in February found that the number of individual shareholders had shot up from 3m in 1979 to about 8.5m - nearly 20 per cent of the adult population. But the proportion of UK shares held by those individuals has continued to fall from an estimated 59 per cent in 1963 and 22 per cent in 1984 to barely more than 20 per cent now. The Government financial statistics show that individual investors have continued as net sellers of shares to the tune of £937m in 1985 and £1,075m last year. The proportion of Stock Exchange transactions by value which was carried out by individual rather than institutional investors this year has been only 21 per cent.

A high proportion of privately held shares belong to the ultra-wealthy, in particular a few entrepreneurs, such as Mr Alan Sugar or Mr Asil Nadir, who have large stakes in the companies that they have built up. The Stock Exchange-Treasury survey showed that 4m of the UK's shareholders only held shares in a privatised company or in the company that employs them. Thus, excluding the wealthiest 200,000 or so shareholders, the remaining shares are spread thinly with an average shareholding of probably only about £2,500 for each investor.

This represents only a small proportion, around 5 per cent, of the average wealth per household, most of which is tied up in housing and pension funds.

Despite the boom in unit trusts, they too have failed to extend their appeal to a broad cross-section of the public. There are estimated to be only about 1.5m unit trust holders. The average size of their holding is quite large, about £20,000 invested in a wide range of UK and overseas stock markets, but on average it is unlikely to account for more than about 20 per cent of their wealth.

The large majority of UK shares, more than 60 per cent, are held by institutional investors, pension funds, insurance companies and foreigners. The stock market would have to fall much further before the actuaries start telling companies and employees to increase their pension fund contributions, if they expect to maintain their level of retirement benefits.

Most actuaries do not value pension funds on the basis of the market value of their assets but on an assessment of the dividends and other income those assets are expected to yield. Even the Inland Revenue, anxious to tax actuarial surpluses, was persuaded to accept this basis of evaluation last year. During a bull market, the actuaries therefore tend to value pension fund assets at much less than the stock market. For example, the leading actuarial firm, R. Watson and Sons, has recently been valuing pension funds at only about 70 per cent of the market value of their assets, according to partner Mr John Wigley. Even on that basis, the majority of funds enjoy actuarial surpluses.

Life insurance company actuaries have become progressively less conservative in their valuation of surpluses in with-profits policies. This has allowed companies to increase their bonuses substantially in recent years and these may have to be cut at the end of 1987 if the stock market falls much further. However, the effect on individuals' perceptions of their wealth and well-being is likely to be too indirect and long-term to make them feel much worse off today.

Thus the impact of a stock market collapse is substantially cushioned by the UK's structure of institutional investment. According to Mr Tim Congdon, an economist at Shearson Lehman Securities: "There is such a gap between the stock market and the ultimate saver that most people are unlikely to feel the effects, at least for a long time."

Mr Congdon believes however that effects could be felt in limited areas, for example, the more expensive end of the housing market in London. The owners and potential purchasers of these houses have quite a high proportion of their wealth in shares. In addition, a prolonged bear market would lead to salary cuts and job losses in the City and the emergence of surplus office space in central London which would depress commercial property prices.

But few provincial towns and cities should be affected. Thus the consequence of a stock market collapse might be a reversal of the widening gap in house prices between London and the rest of the country.

None of these considerations, however, alleviates the anxiety felt over the last two days by those individuals with substantial investments in shares and unit trusts. Should they liquidate their portfolios as quickly as possible or is it wiser to hold on until the market recovers, as it appeared to be doing at times yesterday?

According to Mr John Manser, chief executive of Save and Prosper, the second largest unit trust managers in the UK, most investors do not like to realise losses. Therefore they tend to hold their breath until their shares or unit trusts are showing a profit once again and then sell out. In the bear market of the mid-1970s, most unit trust holders held on until share prices approached their nadir at the end of 1974.

Clearly the soundest advice should have been to sell out at the stock market peak in 1972. But does the same apply today?

The chartists and other technical analysts who claim exclusive insights into the psychology of the stock market were nearly all suggesting yesterday, subject to the usual let-out clauses, that a bear market was beginning. However, the investment performance of the chartists has been so poor in recent years that their advice should be treated with caution.

By contrast, their ideological opposites, the efficient market theorists, recommend a more comforting policy of inaction. Share prices tomorrow, next week and next year are just as likely to go up as to go down, they say. If it was sensible for you to hold 20 per cent of your assets in shares three days ago, it must still be sensible today.

However, even the most hardline efficient market theorist must be rather embarrassed by the apparent lack of efficiency, rationality or even simple mathematical logic displayed by the stock market over the last two days. At the opening of the markets yesterday morning, the FTSE-100 futures contract was trading at 1380 points when the FTSE-100 index itself was nearly 500 points higher. In an efficient market, the futures contract should be priced at slightly above the index.

Despite such disputes, it is possible to draw a few relatively uncontroversial conclusions. One is that it is expensive, in terms of transactions costs and possibly capital gains tax, to liquidate a portfolio of shares and then buy them back again when the market appears to have recovered. It is even more expensive to adopt the same policy with unit trusts, because of the hefty initial charges imposed by the managers.

But there is no doubt that the UK stock market has entered a much more volatile and therefore risky phase in the last week, or even the last three months. More fundamentally, the way in which nearly all stock markets around the world - with the partial exception of South Africa - have slumped simultaneously over the last five days has weakened many of the arguments for international investment in terms of risk diversification.

Thus holding an international portfolio of equities or unit trusts appears to have become a much riskier business. And the riskier an asset, the lower proportion of your wealth it should comprise.

Punishing fraud

The part prison should play in the equation

By Michael Levi

OVER THE YEARS, research has shown that people convicted of fraud have been less likely to be imprisoned - or if imprisoned have been given shorter sentences - than other non-violent criminals who have stolen substantial sums. They have also more often been sent to open prisons and have been more frequently paroled. The warning given earlier this month by the Court of Appeal, while quashing the imprisonment of Keith Best, that future stock market cheats are "on notice that it was not only their assets which were at risk but also their liberty" appears to herald a change. But does it?

The leading case on breach of trust is the "guideline judgement" in *Barrick [1985] 7 Cr.App.R.(S) 142*. John Barrick was 41 years old and had no prior convictions. He was sentenced to two years imprisonment for defrauding £9,000 from a small company where he had been an accountant. He pleaded not guilty. The Court of Appeal upheld the sentence, asserting that "a term of immediate imprisonment is inevitable, save in very exceptional circumstances or where the amount of money involved is small."

It went on to add that "despite the great punishment that offenders of this sort bring upon themselves, the Court should nevertheless pass a sufficiently substantial term of imprisonment to mark publicly the gravity of the offence."

Frauds under £10,000 might expect up to 18 months, while those over £100,000 might attract a term of 3½ to 4½ years, the Court said, adding "it will not normally be appropriate in cases of serious breach of trust to suspend any part of the sentence."

However, there is little evidence that judges of the first instance follow these guidelines, or can be expected to do so in future. Since all sentences have been so low that defendants have not felt cause to complain, insider dealing has never received any specific attention from the Court of Appeal, but it does seem to be analogous to breach of trust. This would suggest that Geoffrey Collier, sentenced for insider trading, should have gone to prison. But the trial judge did not refer to *Barrick* or any other appellate case in his unreviewable sentence.

That is not the fault of the Court of Appeal. But in *Best*, the Court was given the chance of commenting because the judge imposed a sentence that did not satisfy the defendant. Yet it neither specified a length for future sentences nor the circumstances under which those found guilty of fraud should not be jailed.

Indeed, the Court of Appeal has consistently failed to give adequate guidance to judges on the weight they are expected to attach to matters it considers relevant, such as the impact of the offences on the public and on public confidence. What this emphasises is the need for a US-style Sentencing Commission to provide a forum for a more systematic discussion of the principles underlying sentencing in fraud and other cases.

How might such a Commission consider fraud? It would clarify the purpose of punishment. If the aim is general deterrence, the argument in favour of imprisonment is strong. Collier, Best and others might have considered what they were doing more carefully if people had been imprisoned in the past for their offence. The larger the fraud, the more important the sentence length is in deterring what might otherwise be a rational trade-off.

For a businessman, a suspended prison sentence is less of a punishment than publicity

On the other hand, general deterrence that is not limited by the seriousness of the crime can be mere barbarism, so how serious are these offences? One approach is to look at public opinion. Apart from the verdict of the Best case jury, who were told by the defendant's counsel that a guilty verdict would ruin his career, there are no surveys of popular attitudes towards his offence of making multiple share applications.

But research shows that both frauds by professional people and those upon consumers are viewed by the general public as being very grave. So on grounds of retribution, perhaps a prison sentence would have been just, particularly if the grievance of those jailed for thefts far less remunerative than even Best's modest offence is taken into account. Nonetheless, I remain inclined to support the view of the Court of Appeal that the ambiguity of the case at the time should mitigate his penalty.

However, if the aim is special deterrence - to deter the same people from committing further harm - it is harder to justify imprisonment. Irrespective of sentence, it is unlikely that Collier will be allowed to trade in securities or Best to practise at the Bar: if they wish to operate in Britain in the future, they will have to do so secretly via nominees.

A Sentencing Commission might conclude that there should be more prison sentences for fraud, and/or that offenders should do community service to use their entrepreneurial gifts in a more acceptable direction. I doubt that it would support suspended sentences, for on both retributive and deterrent grounds the suspended sentence imposed upon Collier for insider dealing was a particularly absurd piece of symbolic punishment: even if he commits another offence, the chance of his being convicted or even prosecuted within the period of suspension is negligible. And recent research has shown that senior executives rate a suspended prison sentence for a businessman as a less significant punishment than even publicity on its own or a £5,000 fine.

A more modest way of improving the sophistication of thinking on fraud sanctions is to give prosecutors a role in advocating sentence (as in mild-sentencing Holland and Scandinavia, and in the tough-sentencing US). To go beyond the current policy of mere exhortation, we might also support the strengthening of clause 38 of the Criminal Justice Bill 1987 - which proposes to allow the Attorney-General to refer to the Court of Appeal cases in which there are allegedly over-lenient sentences - into a fully-fledged right of appeal against sentence, perhaps on the motion of the Lord Chief Justice if we are tender-minded about giving the prosecutor a role in recommending extra punishment.

The author is senior lecturer in criminology at University College, Cardiff

Letters to the Editor

Fragmented fraternity

From Mr B Dennehy

Sir, - In his article of October 9 Hugo Dixon refers to the building societies being afraid of losing market share in providing mortgages. We are certainly aware of the need to protect ourselves against building societies encroaching on the market for wide-ranging financial services which brokers currently provide. Already many brokers will only place cases with building societies as a last resort. Currently, the foremost reason for doing so is the cheaper rates which can often be obtained from specialist non-building society lenders, but it is also because we do not wish to allow the building societies the opportunity to poach clients in 12 months time for, say, unit trust investment.

The fragmented broker fraternity now has the problem of ensuring that these non-building society lenders can handle bulk mortgage business, or we will be losing market share in mortgages. The evidence of the last few months is not encouraging. We have experienced appalling problems dealing with these non-building society lenders.

To ensure these institutions do not embarrass us in the eyes of our clients again, some action is required by the brokers and insurance companies to ensure that their management and systems are dramatically improved. A boycott of the offending institutions until they prove they can handle volume mortgage business in an acceptable manner is the only long term solution.

I hope this strategy to protect the broker's market share is successful. If it isn't we only have ourselves to blame and the building societies could see a dramatic rise in mortgage business direct from the consumer, (and an even bigger opportunity to cross-sell, contrary to the fears of the societies' management.

Brian B J Dennehy
St Johns Wood
Susan Wood,
Chislehurst, Kent

Derby looks forward

From the President, Derby and Derbyshire Chamber of Commerce and Industry.

Sir, - Peter Riddell (September 28) implied that Derby, as a likely site for "mini" urban development consideration, was a local authority where development land is held and implying that hostility towards business was sometimes evident.

On behalf of industry and commerce in Derby and Derbyshire I strongly refute this charge against Derby City Council who work very positively towards the local political and commercial interests, and do not involve the private sector very fully.

The planning and economic development policy of the city council is fully available and I would recommend that Mr. Riddell might be interested in the most recent report produced, which information is fully available and positively reflects not only the availability of development land and the local employment scene, but also includes local authority programmes.

The city is very keen to attract new industry and commerce to a forward and progressive looking county which offers not only an excellent infrastructure close to the M1 network and the East Midlands Airport, but good Intercity rail links, coupled with first class housing, educational and shopping facilities. Equally substantial areas of industrial designated development land are available within the city boundaries.

D W Edge,
4 Vernon Street,
Derby.

Consequences of a basket

From Mr I Kahn.

Sir, - Donald Franklin's excellent letter (October 12) on the consequences of a commodity basket currency base merits exploration.

During the 1930s and 1940s both J M Keynes and Benjamin Graham, among others, recommended some commodity baskets with components globally traded that fluctuated freely.

Graham, in two books suggested a basket with 23 major world commodities. A span of 20 previous years would provide price ranges fairly reflecting the sweep of cyclical extremes due to nature, people or both. The basket's par would be its average price over those years.

When the total basket price dropped below 20 per cent of par its warehouse receipts could be bought from the central banks that owned them. When its price rose 20 per cent above par, sellers could deliver these receipts and get the stored commodities. Normal trade arbitrage would operate within the baskets components.

The obvious advantages of maintaining production of basic commodities, even while some are in current oversupply gives sustenance to those who produce and use them. When scarcities cause inflation and prices reach above their long term normal range the stored stocks of commodities will exist to satisfy both needs and the fears of the users.

What most countries now do for limited strategic commodities should be expanded to include food, textiles and shelter items which are far more important to the world's well being.

I hope other readers will add their views to the advantages that such commodity baskets could provide for long term economic stability. This was once supplied by the fixed gold standard. The global world has moved beyond digging holes in the ground only to put this gold back into a different "hole".

Irving Kahn, Kahn Bros.,
1 Exchange Plaza (55 Broadway),
New York, NY 10006.

The Indian economy

From Major A Deleus.

Sir, - While Michael Prowse's analysis (October 15) of the Indian economy, "A case study in how not to do it", is undoubtedly masterly, it overlooks a number of important factors, including the main reason for the economy's lack of performance. Corruption, which explains the oddities which boost exports, imports and business generally. There is a very good reason for the numerous government controls, licences and other requirements at every stage of a business transaction. They all represent opportunities for bureaucrats to exact payment before passing on applications to the next higher authority.

Nehru's grandiose ideas of bringing India to the level of western world never had and never will have the remotest chance of fulfilment. The reason lies in the character, or lack of character, of the bania log who have constituted the leaders and the establishment since independence and of whom Nehru was a notable example. Their only criterion is that of personal self interest in terms of wealth and power. How else can one explain the almost obscene wealth of a small minority and the dire poverty of a very large proportion of the Indian population. A few years ago, at the time of the Gandhi film, a Swiss magazine showed a two page spread of a rich Indian marriage where the jewels and other valuables of the forty odd people in the picture represented some £30m to £40m. Over the page was a picture of a woman washing her baby in the gutter, because that was the only water she could find.

With a per capita income of £3 a week, half that of its neighbours Pakistan and Sri Lanka, and the constant holding out of the begging bowl, the latest borrowing is some £800m, how can a country justify the spending of billions of dollars on the latest most sophisticated aircraft; the explosion of a nuclear bomb and the development of a sky rocket. The money spent on these unnecessary projects, much of it contributed as aid by western countries, could be spent on the alleviation of the poverty so evident in every corner of the sub-continent.

As for the failings of the British Raj, while poverty there certainly was and people did sleep on railway stations before independence, one did not see the streets of Delhi lined with many thousands of people sleeping wrapped in a thin piece of cotton in January, when the temperature is little above freezing. Nor did one see the 15 miles of cardboard and hessian shacks lining the road from Bombay airport to the city and which house some million people.

Until India drops its folie de grandeur ideas and gets its priorities right, it will remain of little consequence in world affairs.

(Major) A.H.R. Deleus,
Naval & Military Club,
94 Piccadilly, W1.

Small or great trust

From Mr S Szymanski.

Sir, - In his article of October 9 Michael Prowse expressed some bewilderment at the level of City salaries. Having dismissed Adam Smith's first two rationalisations for high wages - the "hardship" of the job, or "the expense of learning the business" he appeared to believe that no further explanations could apply. Of course it is all in Adam Smith and Mr Prowse would have found this out if he'd looked at the third and fourth justifications, viz "The constancy or inconstancy of employment" and the "small or great trust which must be reposed with the workman".

In the light of recent job losses in the City, number three needs no further elaboration. Number four is also quite apposite in the current climate. If there are large sums of money to be invested by principals who have little knowledge of the arcana of modern markets then it is hardly surprising if they pay their agents vast salaries (but small amounts relative to total investment) to ensure proper behaviour. Indeed, since all the recent scandals perhaps they should be paid yet more so as to keep them on the straight and narrow.

Adam Smith was wise enough to recognise that what you are paid bears little or no relation to the usefulness of what you are doing.

Stefan Szymanski,
Birkbeck College,
7-15 Gresse Street, W1.

FINANCIAL TIMES
Wednesday October 21 1987

US denies it is being pushed towards war

BY ANDREW GOWERS IN LONDON AND PATRICK COCKBURN IN MOSCOW

WASHINGTON FIRMLY denied yesterday that it was being pushed towards war with Iran, but said it was prepared for any Iranian response to Monday's American attack on two Iranian oil platforms in the Gulf. Tension in the waterway remained high as Iran repeated a threat to retaliate.

In an effort to dampen fears of a wider escalation, Mr George Shultz, the US Secretary of State, said: "It was a well-timed, precise, restrained, definite response to Iranian attacks."

Mr Shultz was speaking in London after a meeting with Sir Geoffrey Howe, the British Foreign Secretary. Asked if Washington was "backing into" war with Iran, he answered flatly: "No".

In Washington, Mr Caspar Weinberger, the Defence Secretary, said the US was not seeking any further hostilities with Iran. But he added: "We are prepared, I think, for whatever eventualities emerge from this situation, but we don't look on it as a war."

Britain, which supported the US action, was also trying to reduce tension yesterday. Following the meeting with Mr Shultz, British officials said it was not a foregone conclusion that the conflict would now escalate. They pointed out that both the US and Iran had shown restraint so far, and had chosen their targets carefully with a view to keeping the confrontation within bounds - Tehran by hitting a US-flagged ship while it was not under American naval protection and Washington by striking oil rigs in international waters rather than targets on land.

"I don't regard this as something spiralling out of control," said one senior official.

There was no sign, however, of a lowering of the political temperature in Tehran. Mr Ali Akbar Hashemi Rafsanjani, speaker of the Iranian parliament, reiterated Monday's threats of retribution. In a speech broadcast by Tehran radio he said: "God willing, we will carry out our duty in the coming days and make them sorry. It is not a threat or an attempt at intimidation when we say we will respond to aggression - it is a reality and we have proved it in practice."

Tehran said the two oil platforms struck on Monday were still on fire 24 hours later, and that it was preparing lawsuits to recover damages estimated at $500m.

Kuwait, in its first official response to Monday's incident, expressed concern about what it called "the aggravation of tension in the Arabian Gulf" and called for increased efforts to implement United Nations Security Council resolution 598 calling for a ceasefire in the Gulf war. Newspapers in the Arab Gulf states expressed cautious approval for the US action, although some suggested that Washington had not gone far enough to deter Iran from further attacks.

The Soviet Union, meanwhile, appeared to Western diplomats to be striking a relatively restrained note. Mr Gennady Gerasimov, the Soviet Foreign Ministry spokesman, described the US attack as "an obvious violation of international law" and contrary to resolution 598, and repeated an earlier Soviet proposal for the replacement of the foreign naval fleets in the Gulf by a UN force. However, Moscow's clear wish is to prevent the Iran-Iraq war from becoming a central issue in US-Soviet relations.

The Gulf is sure to be discussed later this week when Mr Shultz meets Mr Eduard Shevardnadze, the Soviet Foreign Minister, in Moscow. But it is not thought likely to take precedence over the main issues of arms control and a planned summit between President Ronald Reagan and Mr Mikhail Gorbachev.

Tony Walker in Dubai examines what form of retaliation Tehran is likely to take

Gulf states jittery as threats grow

IRAN'S FIERCE threats of retaliation against the US and its allies are adding to nervousness among Arab states around the Gulf over the possible consequences of Monday's attack on an Iranian oil platform.

Local observers said there is a sense of a threshold having been crossed and that the conflict will almost inevitably continue to escalate. Monday's incident, they said, exemplifies the US tilt towards Iraq.

Mr Alireza Afshar, the Iranian Revolutionary Guards spokesman, sounded an ominous note when he said: "The blow the US will receive from the combatants of Islam in the Gulf will be much harder than the slap it received in Lebanon".

Mr Afshar, quoted by Tehran Radio, was almost certainly referring to the truck bomb slaying by Iranian proxies in Beirut in October 1983 of 241 Americans, most of them marines.

The Iranian oil platform Rostam blazes after being attacked by two US warships in the Gulf on Monday

The question being asked in the Gulf yesterday was what form Iranian retaliation may take.

One of Iran's options would be to attack an offshore oil platform or similiar installation belonging to an Arab ally of the US.

This could be represented as being more or less commensurate with the US action on Monday, in which four American warships demolished an Iranian oil platform, east of Qatar in the central Gulf.

Offshore installations belonging to Kuwait, Saudi Arabia, Bahrain, Qatar and the United Arab Emirates would all be vulnerable to an Iranian retaliatory strike.

"Any oil platform anywhere in the world is highly vulnerable to terrorist attack," said a Gulf salvage expert. "It would be almost an impossibility to protect all offshore facilities on the Arab side of the Gulf."

The expert noted that Iranian F-4 phantoms last year attacked and put out of action Abu Dhabi's Abu al Bakoosh offshore terminal. A possible target is the joint Saudi-Kuwaiti oil production platform in the northern Gulf which was menaced two weeks ago by an armada of Iranian patrol boats.

Other options include further use of mines to embarrass the US, either by seeking again to hit a tanker under escort or by inflicting damage on a US warship.

A drastic measure available to Iran would be for it to seed mines in the approaches to the Strait of Hormuz, closing its southern channel to traffic, while keeping open the northern route in Iranian waters. It is assumed that whatever retaliatory measures Iran adopts, they will be unpredictable. The Iranians have shown a degree of inventiveness on each occasion they have been challenged.

There is also a sense in the Gulf, however, that Iran may be running out of options. This may itself increase prospects of a confrontation with the US.

Local observers believe that Kuwaiti refineries, ships and oil-loading facilities remain the most likely targets of an Iranian retaliatory strike.

Reckoned to be particularly vulnerable is Kuwait's Al Ahmadi oil refinery. On September 5, Iran fired a Chinese Silkworm missile close to the giant facility.

Last Friday's missile attack on an US-flagged tanker in Kuwaiti waters proved that Iran could reach the Al Ahmadi refinery with its Silkworms, fired from nearby Faw peninsula in Iranian-occupied Iraqi territory. "If they hit almost any part of it (the refinery), the consequences would be vast," said an oil expert. "They could destroy the whole place and you could just about say goodbye to Kuwait's whole economy."

Dismissed Soviet farm chief goes on hunger strike

By Our Moscow Correspondent

THE CHAIRMAN of a Soviet collective farm has gone on a five-day hunger strike in protest against his dismissal by workers who took advantage of greater democracy in the selection of Soviet officials to vote him out of office.

At five o'clock on the day after he was fired, Mr K.T. Kazembekov, previously head of the Minurina collective farm in the Republic of Kazakhstan, pushed an armchair to the entrance of the regional Communist Party headquarters and began his hunger strike.

Earlier he had sent a telegram to the press announcing his intention to protest against "crude violations of legality and the existing rules of Nomenklatura." The "Nomenklatura" is the system, which plays a vital role in Soviet life, of posts which can be filled only with the agreement of the appropriate party body. In the case of collective farm chairmen, it is the regional party committee.

Both Mr Kazembekov's dismissal by the farm workers and his protest action are unprecedented. Their importance is that they illustrate how tensions between managers and workforce are now emerging into the open in many Soviet enterprises and farms as workers are given a say in who is in charge.

The incident began at a meeting between Mr Kazembekov and the workforce on an impoverished farm called Minurina, near Semipalatinsk in Soviet Central Asia, according to the daily Komsomolskaya Pravda. It reports that at such meetings "with all the talk of perestroika (restructuring), glasnost (openness) and other tempting things, people have started criticising each other left, right and centre."

At a poor farm like Minurina, says the newspaper, there is plenty to criticise "but God help anyone, even with glasnost, who had something to say against the director." Mr Kazembekov reacted to criticism by telling the workers (their number is not given but the average on a Soviet collective farm is 540) that they should criticise less and think more about the economic future of the farm.

In response the meeting "decided that the economy of the farm could be drastically improved if the director were removed from his duties." They then voted to fire him and the decision, over Mr Kazembekov's protests that the procedure was illegal, was confirmed by the regional party.

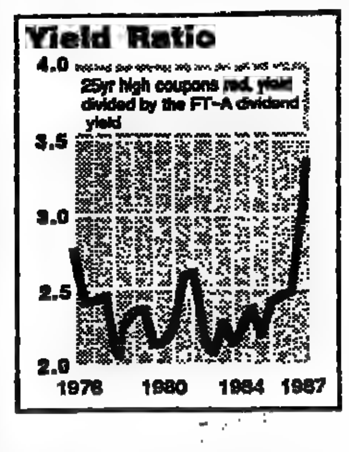
When the reporter from Komsomolskaya Pravda visited Minurina, he asked what was wrong with the former director. He was told: "He takes all decisions himself but, at the same time, avoids taking responsibility for his decisions. We live in an atmosphere of fear and suspicion. He makes it very hard to work here and he hasn't a clue what is happening on the farm. He's on one side of the fence and we're on the other."

How did he get apppointed? The local party said applicants for such jobs were seldom of good quality. The paper admits also that the farm was heavily in debt before Mr Kazembekov arrived but adds gloomily that he is fairly typical of managers on Soviet collective farms.

THE LEX COLUMN

The strain starts to show

The real gravity of the situation in world markets was most apparent yesterday in the US. The Fed said again that it would keep the system liquid: Goldman Sachs undertook to support the mutual funds in the face of redemptions: and Merrill Lynch strode forth heroically to buy its own shares. The echo of similar gestures in 1929 was more unsettling than reassuring, and Wall Street's initial response was an up-and-down swing of 200 points.



Movements like this are becoming virtually impossible to interpret. In London, Glaxo's nominal value fell by over £1bn in the morning, gained all that and more in the early afternoon, and lost it again by the close. Mid-afternoon offered the bizarre spectacle of some market makers selling Hanson Trust at 130p and others apparently offering to buy at 147p - a situation which lasted for over half an hour. A near-record volume of shares may have been traded, but plainly not at the prices shown on the screen.

In the US, meanwhile, it was impossible to trade index options or futures anywhere for most of the morning. Hong Kong is still the only market to have closed outright, but there is a real danger of others joining it in practice. The breakdown of markets, and the inability to deal and to hedge, is perhaps the most worrying development of the past two days.

Structural damage

There is a school of thought that the dramatic collapse in world share prices reflects little more than an overdue pricking of a speculative bubble, with a healthier financial system as the end result. However, the spate of rumours which swirled around the financial markets yesterday, and the evident flight to quality, reflected very real fears that the scale of damage, resulting from the drop in equities and the upheavals in other financial markets, could trigger a major financial crisis.

The immediate area of concern is the securities firms which have been in the front line. Given the scale of the price movements it would be very surprising if some of them had not suffered serious capital losses, and several blue-chip firms yesterday went out of their way to deny that they were in trouble. The commercial banks appear less immediately at risk, and every effort will be made to prevent any panic spilling over into the banking system. But all banks will be reviewing their lending exposure to the securities industry, and this could limit its future growth.

A particular area of concern is Japan, where stock market speculation has been a big source of profits for many local companies. Japanese banks value their investments at cost, so the immediate impact of the sell-off may be cushioned depending on when they invested; but the banks may be required to support their corporate customers if they begin reporting heavy investment losses. Meanwhile, the collapse in share prices will almost certainly have seriously damaged the high-powered efforts of US commercial banks to get more actively involved in the securities industry.

The second area of concern is at the personal level. The sharp decline in equity values will spill over into other asset values - such as residential real estate in the south east of Britain - and this in turn will dampen consumer spending. Just how far the loss of confidence will feed through into the rest of the world economy is highly uncertain, but Paine Webber, the US brokerage firm, yesterday estimated that the decline of the US stockmarket from its peak had resulted in a reduction of $1 trillion in US net wealth. The direct effect of this is an estimated 1 per cent fall in US economic activity next year, and this contraction of private wealth can only lead to less borrowing and spending, making the risk of a recession more acute.

Another source of worry is less substantial. To the extent that equities are owned by pension funds and insurance companies they represent the savings of the general public. But liabilities stretching over decades are scarcely affected by short-term market movements, even on the present scale. Overfunding of pensions may be a thing of the past, but it would take a much larger fall to put people's pensions in actual danger. One could indeed argue that the fall is good for pensions: if the future dividends of an ICI are not affected by short-term market movements, it makes more sense for a fund to buy the shares now at £12.50 than at £16.50 back in the summer.

Bonds

The most perverse response in the markets yesterday was the sharp rise in government bond prices. While a flight to quality is a perfectly sensible defensive move in troubled times, it is usually best confined to cash and short-term securities. However, the drop in short-term interest rates in the US, accompanied by a couple of prime rate cuts, was joined by falling long-term yields with the return on the US long bond dipping briefly below 9 per cent.

The bullish case advanced for US bonds, which extended to other bond markets, was that if falling equity prices are signalling a US recession then inflation is no longer a worry. Yet it is hard to believe that the concern which has dogged the bond markets for months can be done away with at a stroke. Although the dollar rallied yesterday, following the patching up of the Louvre accord, that strength must be seen as temporary and is hardly consistent with lower US interest rates. Meanwhile, the pouring of liquidity into the US financial system yesterday must tend to expand the money supply. Yesterday's poor UK bank lending statistics, which were rapidly forgotten in the gilt market's rise, would normally have stoked up fears of inflation.

As the UK found in the last recession, the US will still have to fund its budget deficit, given the politicians' refusal to raise taxes. If the Japanese are to be enticed into buying more US bonds rather than repatriating funds to support their domestic market, they will need to be offered rather more than 9½ per cent at the forthcoming refunding.

Aquino gives assurance to creditor banks

BY RICHARD GOURLAY IN MANILA

PRESIDENT Corazon Aquino of the Philippines yesterday said the government will ensure that all the country's creditor banks will be able to sign a debt rescheduling agreement covering $13.2bn before a November 15 deadline.

Pressure in Congress for a limit to interest payments and controversy over a government guarantee for a $57m private loan last month, looked set to derail the debt rescheduling deal agreed in June. Bankers say 30 of the 483 creditor banks have refused to sign the agreement because Manila has not implemented its guarantee.

However, the announcement was almost lost in her speech to business groups, who warmly welcomed it as a timely reaffirmation of her support for the business community.

Enthusiastic applause gave way to wild cheering when Mrs Aquino ordered a crackdown on illegal strikes that bankers and businessmen say have badly damaged investor confidence. She ordered a special force of police and army, now under training, to help enforce existing labour laws and to remove illegal blockades at factories.

The issue of illegal strikes - many of which are fomented by militant left-wing unions - was the main reason why the combined business groups called for the meeting two weeks ago.

The Defence Department, which controls the police, and the labour department will clarify later this week the exact rights of strikers and police actions.

On privatisation of government assets - an issue on which foreign and local investors say there has been almost no action despite lip service to the idea - Mrs Aquino said she wanted to sell all the investments the previous government should never have made. "There is always an excuse not to sell. I want Government to get out of business."

All government hotels, including the prestigious Manila Hotel where she was speaking, were up for sale. The sale of Philippine Airlines is also under serious consideration. It is an apparent shift back towards speedy asset disposal.

Earlier this year, long after she announced the plan to privatise government-held assets, Mrs Aquino questioned why it was necessary to dispose of profitable assets, such as parts of the Philippine National Oil Corp, before non-performing assets were sold.

Mrs Aquino came across as ready and more than willing to confront the threats to her government from communist led guerrillas and renegade military rebels. The official silence that has dominated much of the time since the coup, was first filled with noise from enemies from each political extreme and then by a growing rumble of doubt over her abilities from the centre.

Captain rides out the storm

Continued from Page 1

then "it was the computers for the rest of the night," a company official said.

The panic-struck mood of investors which had triggered Monday's astonishing collapse of prices had ebbed substantially yesterday, said Mr John Slade.

He noted that European investors had made a cooler evaluation overnight and decided there were substantial bargains to be had in US stocks. "They were big buyers in our market today." He was afraid, however, that yesterday would see heavy margin selling which would add huge quantities of shares to the market. This occurred but he was pleased with how well the market withstood the pressure.

Mr Greenberg played his captain's role on Monday and yesterday to keep his crew wedded to reality.

In fact, the firm moved rapidly overnight to hire some specialists whose firms had collapsed in Monday's market rout.

"We saw some friends get wiped out, which is never pleasant. We saw a lot of blood, which is never pleasant."

It seemed that one of his few complaints about Monday was that the error level in transactions was inevitably higher than usual in the cascade of orders.

The last couple of days had been "a crazy business." Prices had collapsed because of panic selling "by people who can be a bunch of idiots."

Were they idiots on Monday? "Time will tell."

Limited success for calm

Continued from Page 1

kets. That contributed to a general downward trend in interest rates, with those US banks which raised their prime rates last week reversing the move, and bond markets in all the major centres rising sharply.

Mr Michael Wilson, Canada's Finance Minister, said that there had been a number of discussions among ministers on the need to ensure that there was no shortage of funds in their respective markets.

The looser monetary stance was reflected in the Bundesbank's decision to cut the rate on its latest repurchase arrangement with the commercial banks to a fixed 3.8 per cent from the 3.85 per cent which followed last week's tender.

Yesterday's move to lower the repurchase rates was seen in other European capitals as a direct response to that meeting and, more generally, to fears that continuing discord would worsen the situation

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	22	72	Dubrovnik	S	22	72	Malta	S	24	75	Rhodes	S	22	72
Algiers	S	26	79	Edinburgh	C	11	52	Manchester	C	13	55	Rio de J'o	C	26	78
Amsterdam	C	14	57	Faro	S	19	66	Manila	C	32	90	Rome	F	23	73
Athens	F	20	68	Florence	S	20	68	Melbourne	F	17	63	Salzburg	S	13	55
Bahrain	C	32	90	Frankfurt	C	10	50	Mexico City	S	25	77	San Francisco	C	20	68
Bangkok	S	32	90	Funchal	F	20	68	Miami	S	28	83	Seoul	F	13	55
Barcelona	F	22	72	Geneva	C	11	52	Milan	S	16	61	Singapore	F	33	91
Beirut	S	26	79	Gibraltar	F	22	72	Montreal	R	13	55	Stockholm	C	10	50
Belfast	F	13	55	Glasgow	R	12	54	Moscow	C	1	34	Strasbourg	C	[illegible]	[illegible]
Belgrade	F	17	63	Guernsey	F	15	59	Munich	S	13	55	Sydney	C	20	68
Berlin	C	11	52	Helsinki	C	5	41	Nairobi	F	28	82	Taipei	S	29	84
Biarritz	R	17	63	H. Kong	F	27	81	Naples	S	23	73	Tangier	F	21	70
Bombay	F	32	90	Innsbruck	S	16	61	Nassau	S	29	84	Tel Aviv	S	26	79
Bordeaux	C	17	63	Inverness	C	10	50	New Delhi	F	27	81	Tenerife	C	23	73
Brussels	C	15	59	Islamabad	C	29	84	New York	S	16	61	Tokyo	S	27	81
Budapest	C	14	57	Istanbul	F	17	63	Nice	S	22	72	Toronto	R	17	63
B. Aires	C	24	75	Jakarta	C	30	86	Nicosia	S	27	81	Tunis	S	27	81
Cairo	C	27	81	Jersey	C	15	59	Oporto	F	14	57	Valencia	F	23	73
Cape Town	S	22	72	Jo'burg	S	25	77	Oslo	C	10	50	Venice	S	17	63
Caracas	C	27	81	Lima	R	21	71	Paris	F	16	61	Vienna	C	12	54
Casablanca	F	22	72	Lisbon	F	16	61	Peking	-	-	-	Warsaw	S	13	55
Chicago	C	14	57	London	R	15	59	Prague	C	10	50	Washington	-	-	-
Cologne	F	10	50	Los Angeles	C	22	71	Reykjavik	S	2	36	Zurich	C	10	50
Copenhagen	S	13	55	Luxembourg	S	12	54								
Corfu	S	23	73	Madrid	C	15	59								
Dallas	-	-	-	Majorca	F	25	77								
Dublin	C	11	52	Malaga	S	21	70								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Markets swing wildly

Continued from Page 1

ties, bonds, currencies and most other financial instruments.

News that major US banks had cut their prime rates also provided a fillip to markets. Concerns about the rising trend of world interest rates and speculation the Fed would have to raise the discount rate to prevent a further slide in the dollar was a crucial trigger to the collapse in stock markets which began last week.

The decision by the West German Bundesbank to fix a marginally lower interest rate on its repurchase pact today added weight to a flurry of official statements by central bankers and finance ministers of the Group of Seven industrial nations aimed at reassuring markets.

The positive impact of these events, particularly the Greenspan statement, combined with signs of massive money market intervention and a surprising strengthening of the dollar, sent US bond prices soaring by around five points before the equity market opened.

This laid the foundation for a large early recovery by blue-chip US stocks. Then, however, the rally petered out, partly as rumours about the financial positions of several US financial institutions circulated the market. Some traders were stranded with huge unwanted stock positions as the Dow tumbled back into negative territory by noon.

However, the bears' attempts to push the market lower also fizzled repeatedly, in part because of large stock repurchase programmes announced by numerous leading companies, including Ford, USX, Merrill Lynch, Shearson Lehman and Citicorp.

Nevertheless, the fact that equities failed to sustain a rally was seen as deeply disappointing by many market traders, particularly considering the big cuts in interest rates since Monday's collapse.

Widespread halts in trading, as order imbalances developed for many blue-chip stocks, added to the volatility of market averages.

In another unprecedented development, US options and futures exchanges, temporarily suspended trading in stock index options and futures for much of the morning, citing imbalances of sell orders in many of the indices' constituent stocks.

The London stock market was at the mercy of events overseas and particularly on Wall Street.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday October 21 1987

Icahn calls off offer for TWA

By Our Financial Staff

THE SHAKEOUT on Wall Street claimed another victim in the US mergers scene with yesterday's announcement from Trans World Airlines that its chairman, Mr Carl Icahn, has withdrawn his proposal to acquire the TWA shares he does not already own due to the deterioration in market conditions.

The news comes just two days after the board of the major transatlantic airline agreed to an improved offer from Mr Icahn for the 27 per cent of the stock which he does not hold. Under the proposal, Mr Icahn would have paid $20 in cash and $25 face amount of 12 per cent subordinated debentures due in 2007 for each TWA share.

TWA, whose shares were suspended early yesterday, said Mr Icahn reserves the right to make a subsequent proposal at some future date on the same or different terms.

Mr Icahn had raised his offer from an initial bid in July of $20 cash and $20 in securities. The latest bid valued TWA at $1.35bn.

Meanwhile, Mr Irwin Jacobs, the Minneapolis investor, said he sold his stake in Gillette, the US toiletries group, after deciding that he could not force Gillette to accept a $47 a share takeover bid made by Mr Ronald Perelman's Revlon Group.

Revlon's $5.35bn bid expired last week after being repeatedly rejected by Gillette. Mr Jacobs had earlier considered waging a proxy fight over Gillette.

Mr Jacobs said he sold the Gillette stake, which he called "substantial" but under 5 per cent, a few weeks ago over a period of several days. He said he sold the stock at a profit, but did not disclose the selling price.

Sears Roebuck income rises to record $409m

BY OUR FINANCIAL STAFF

SEARS, ROEBUCK, the largest US retailing group, yesterday posted record third-quarter earnings of $409m, or $1.09 a share, and said it remains optimistic about the fourth quarter and year ahead.

The latest earnings are up 24 per cent from the $328.1m or 88 cents a share achieved in 1986. Revenues in the latest quarter rose 9.1 per cent to $12.2bn

The company said it expects gains in disposable personal income to accelerate in the current quarter with general merchandise industry sales increasing about 5 per cent and non-durables registering a larger gain than durables.

Sears said net after-tax realised capital gains and other income in the quarter totalled $90.6m compared with $40.7m last year. Nine-month profits rose 34.5 per cent to $1.09bn or $2.86 a share, against $808.3m or $2.17, a share. Net after-tax realised capital gains and other income totalled $290.5m compared with $155.2m a year ago.

Sears' merchandise group's quarterly income of $170.4m compared with $170m the previous year, despite a rise in revenues from $6.66bn to $6.96bn.

The Allstate insurance group reported quarterly income of $240.5m, up 19.7 per cent from $200.9m a year ago and benefited from a $33.3m "fresh start" tax adjustment.

The Dean Witter financial services group reported a loss of $4.2m in the quarter compared to a year-ago loss of $8.0m. Discover Card operations reported a loss of $29.4m compared to a loss of $22.4m a year ago. Revenues for the group rose from $837.3m to $1.02bn.

The Coldwell Banker real estate group reported third-quarter income of $47.8m compared with $7.8m last year. The increase resulted primarily from the sale of a shopping centre.

Ericsson office equipment unit to be sold within cost-cutting plan

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

ERICSSON, the Swedish telecommunications and electronics concern, is selling its office equipment operations as part of the continuing retrenchment of its loss-making information systems division.

The office equipment sector, which includes typewriters, printers, calculators and office furniture, is to be sold to Design Funktion of Norway, a small office furniture manufacturer, according to an agreement in principle reached this week. No financial details of the deal were released.

Design Funktion is a limited partnership owned 38 per cent by Investa, the Norwegian investment company, and 56 per cent by the privately-owned Entranor-Gruppen, in which Investa also has a 47 per cent stake.

Ericsson entered the office-equipment field at the beginning of 1983 with the acquisition of Facit from Electrolux as part of its wide-ranging attempt to enter the fledgling information industry.

Mounting losses have forced it sharply to reduce its ambitions, however, and to concentrate its operations on the core products of communication systems, including large subscriber exchanges and data systems.

Ericsson is to take an equity stake of about 20 per cent in a new company to be established by Design Funktion to operate the office-equipment activities under the Facit name.

The Facit operations have annual sales of about SKr2bn ($319m), a workforce of 2,500 and two manufacturing plants in Sweden. Sales are chiefly in the Nordic region, the UK and France.

The most important sales channels are the 60-strong franchise operation of Ericsson City shops in Sweden together with 15 wholly-owned Facit foreign sales subsidiaries.

Design Funktion, which bought the Facit office furniture manufacturing operation from Ericsson at the end of 1985, has sales of only SKr250m and a workforce of 300.

Including the latest disposal, which will be effective from the end of the year, Ericsson's information systems division will have cut its workforce from a peak of 22,900 to about 12,400 in a bid to check more than three years of heavy losses.

The office equipment operations account for about 20 per cent of the information systems business area.

Oilfield services group rebounds

By Karen Fossli in Oslo

SCHLUMBERGER, the French-US oilfield services group which has been hard hit by the decline in US oil exploration activity, has bounced back with a third quarter net income of $2m, compared to a net loss of $42m or 14 cents per share, in the same period last year.

The latest results, however, are heavily distorted by special factors. They include $152m from continuing operations, a $220m loss from the sale of Fairchild Semiconductor and a $70m extraordinary gain.

Included in income from continuing operations is an unusual $69m after-tax gain on the sale of Schlumberger's investment in Compagnie Luxembourgeoise de Telediffusion.

Mr Euan Baird, Schlumberger's chairman, said excluding unusual items, third quarter income from continuing operations was $83m compared to break-even in 1986. Increased income from continuing operations was due to improvements in oilfield services, mainly in North America, Latin America and Africa.

Oilfield services revenue of $588m in 1987 was three per cent higher than in the third quarter of 1986. Measurement and systems revenue improved three per cent to $503m.

"Good results" were also reported by several units of Schlumberger Industries, notably electronic transactions and the electricity, water and gas meter activities; Schlumberger Technologies' automatic test equipment and computer graphics systems.

For the first nine months of this year Schlumberger had net income of $37m, or 13 cents per share, compared to $181m, or 56 cents, in the same period in 1986.

Third quarter revenues reached $1.22bn compared to $1.11bn in the same period last year. Nine-month revenues slipped to $3.43bn from $3.84bn.

Citicorp earnings lifted by special tax benefits

BY DAVID LASCELLES IN NEW YORK

CITICORP, the largest US banking group, reported a sharp increase in third-quarter earnings yesterday though much of the gain resulted from exceptional items.

The group still expects to make a total loss of $1bn this year because of the $3bn provision it made against Third World loans in May.

Net income was $541m equivalent to $3.64 a share, up from $247m, or $1.64 a share, in the same quarter last year. For the first nine months, Citicorp made a loss of $1.8bn compared with a profit of $752m last year.

Citicorp's basic businesses earned $235m, down $11m on last year, largely because of the loss of $45m in interest from Brazil which is not servicing its debts.

On the investment banking side, earnings from foreign exchange and securities trading were also down, but the individual banking business registered a strong profits increase.

These results were boosted by an after-tax gain of $163m recovered from overfunding the pension plan, and $139m in tax benefits from the $3bn debt provision.

During the quarter Citicorp obtained $1.1bn in new equity capital, which raised the ratio between its primary capital and its total assets to 8.1 per cent on September 30 from 6.6 per cent at the same point last year.

Although Citicorp made no direct reference to the upheavals in the stock market, it said its dividend policy "reflects continued long-term confidence in the outlook for Citicorp as a uniquely positioned global financial institution."

Manufacturers Hanover, the sixth-largest US bank, said its third-quarter profits had risen 22 per cent to $129m from $107m in last year's third quarter. As with Citicorp, the bank's basic business was affected by non-payment of interest by Brazil, offset by recognition of $55m of excess value in the pension fund.

Non-interest expenses were also down due to a programme of cost control.

Bankers Trust's earnings were 33 per cent higher at $148.4m, but this included $18.8m in exceptional tax benefits without which net income would have been $127.6m, up 16 per cent.

The bank said that the overall improvement in profits had resulted from an increase in non-interest income, a lower provision for loan losses and higher net interest income. But there had been an increase in non-interest expenses.

Mellon Bank in Pittsburgh, under new management after suffering losses earlier this year, returned to the black with a profit of $16m in the third quarter.

Securities firms results mixed

BY OUR FINANCIAL STAFF

WALL STREET'S securities houses, which stand to be hit badly by the current shakeout in securities markets, have announced mixed results for the third quarter.

Shearson Lehman Brothers Holdings, formerly a wholly-owned subsidiary of American Express, reported a fall in third-quarter net earnings from $65m to $51m, or 51 cents a share. It said the recent decline in equities had had a dislocating effect on the market but no impact on the company's financial condition.

Revenues were $1.3bn compared with $1.1bn a year earlier.

Mr Peter Cohen, chairman, said Shearson's third-quarter earnings reflected the diversity of its revenues and "progress in several core businesses resulting in higher commission, investment banking and investment advisory revenues.

"These improvements were offset by a decline in revenues from market making and principal transactions and an increase in expenses from year ago levels."

First Boston has increased its third-quarter net income by 50.5 per cent to $40.8m, or $1.15 a share, on a 40.4 per cent increase in revenues to $369.6m.

The firm's better earnings, which also mark a sharp rebound from a second-quarter hit by losses on bond trading, provided a measure of support for its stock price in the market collapse.

Mr Peter Buchanan, chief executive, said the firm's traders and investment bankers "experienced significant volatility in both the debt and equity markets."

But the firm sharply improved its trading performance, with own-account revenues up from $19.5m to $66.1m, while revenues from investment banking rose from $175.4m to $250.8m.

E.F. Hutton, which over the past two days has firmly denied that it was having liquidity problems, managed a sharp increase in third-quarter earnings from $3.6m, or 11 cents a share, to $8.7m, or 26 cents.

Nine-month earnings were up from $43.6m, or $1.38, to $120.6m, or $3.65.

Paine Webber, whose stock fell 20 per cent in the fall-out, reported net income for the third quarter of $14.8m, or 44 cents, compared with $21.1m, or 71 cents, previously.

Nine-month net income was still higher, however, at $65m, or $2.01, against $57.4m, or $1.93, on revenues of $1.69bn, against $1.81bn.

Dow Chemical income surges

BY OUR FINANCIAL STAFF

DOW CHEMICAL, the second largest US chemicals group, yesterday reported record third-quarter results, with net income jumping 98 per cent to $330m or $1.72 a share. In the corresponding period last year the figures were $167m or 87 cents.

Sales for the quarter rose to $3.4bn, with an operating income of $362m against $2.7bn and $274m last time. Earnings per share for the quarter were 58 per cent higher than the company's previous best third-quarter earnings of $1.09 a share, in 1979.

Mr Paul F. Oreffice, chairman and chief executive, forecast a record result for the year and said all segments and "geographic areas performed well, even in what has typically been an off-season."

Basic chemicals and plastics had shown "exceptional gains," with continued good balance between supply and demand. "The quality of our business remains excellent, with margins continuing to expand for many products as a result of higher operating rates, improved price/cost relationships and overall productivity gains."

Among basic chemicals, major contributors included vinyl chloride, monomer, chlorine and caustic. Polyethylene and polystyrene continued to experience strong demand and increasing margins, Mr Oreffice said.

"Each of our consumer specialty businesses performed well, with operating income for the total segment double that for third-quarter 1986.

"Agricultural products showed strong results, primarily outside of North America." Among pharmaceuticals Dow Chemical's cholesterol reducer Lorelco, its Seldane antihistamine, and its Nicorette chewing gum designed to help people stop cigarette smoking, continued to show "outstanding performance."

Worldwide sales rose by 22 per cent compared with last time, with Europe accounting for the biggest percentage increase. "The Pacific reported record operating income, while Canada had its highest sales quarter ever," Mr Oreffice said.

Big European groups set for Matra stake

By George Graham in Paris

THREE MAJOR European industrial companies are expected to take stakes in the French defence and electronics group Matra, to be privatised next week.

Mr Jean-Luc Lagardere, chairman of Matra, said yesterday that the major candidates for the "hard core" of friendly shareholders – the composition of which will be announced by the financial ministry on Friday – are Daimler Benz of West Germany, GEC of the UK and Sweden's Wallenberg group, which controls the Ericsson telecommunications company.

"These are three groups I know and appreciate, and which can help us create a great European group," Mr Lagardere said.

Mr Lagardere's own holding company, MMB, which indirectly controls the Hachette publishing group, is also a candidate for the maximum 6 per cent stake allowed in the hard core. The company is to increase this stake by buying in the market after Matra has been floated.

The hard-core shareholders will have to pay a premium of 10 per cent to Matra's flotation price, which is also due to be announced on Friday.

Matra will raise about FFr800m ($135.5m) of new capital at the same time as next week's offer for sale, taking its value to about FFr4bn.

Because the state owns only 51 per cent of the company, the number of shares put on sale to the public will be relatively small, totalling about 20 per cent of its capital.

Besides the hard core controlling up to 22 per cent of the company, the government has created a golden share which allows it to veto any stake of more than 10 per cent for the next five years.

Abitibi-Price up in quarter

ABITIBI-PRICE, Canada's largest newsprint producer, enjoyed a strong third quarter with higher product prices, but because most of its sales are made in the US, exchange factors limited the gain in earnings.

Third-quarter profit was C$33m ($25.6m), or 45 cents a share, against C$31.1m, or 42 cents, on revenues of C$756m against C$716m. The Canadian dollar strengthened considerably in the third quarter.

Nine months' net profit was C$91.1m, or C$1.23 a share, against C$81.3m, or C$1.11, a year earlier on revenues of C$2.2bn against C$2.1bn. The company is controlled by the Reichmann family of Toronto.

Equiticorp agrees bid for NZ Steel

BY CHRIS SHERWELL IN SYDNEY AND DAI HAYWARD IN WELLINGTON

EQUITICORP HOLDINGS, the New Zealand group headed by entrepreneur Mr Allan Hawkins, yesterday announced an agreed A$324m (US$234.9m) takeover of New Zealand Steel, which is 89 per cent owned by the Wellington Government.

Mr Hawkins, best known in Britain for his recent moves to acquire control of the merchant bank, Guinness Peat, acknowledged the purchase was taking the group into a new area.

But he said the move was in keeping with Equiticorp's goal of building two distinctive operating arms, one in manufacturing industry and the other in merchant banking.

For the New Zealand Government, it is a long-sought exit from a business in which it acquired control in return for taking on the company's debt load. The authorities have consistently criticised the structure of NZ Steel, which was one of the "think big" projects of the previous government.

Earlier this year, the Government advertised for buyers. Only two companies showed an interest, and officials said both offers were far too low. The deal will give the Government Equiticorp shares which it will sell over a later period.

Mr Roger Douglas, Finance Minister, brushed aside criticism, saying the deal meant the Government would have a substantial sum in its reserves much earlier than it would have done had it waited to try to find a buyer at the higher cash price. He agreed, however, that taxpayers had lost on the deal.

Under the terms of the takeover, Equiticorp is to bid the equivalent of 40 Australian cents a share for all of NZ Steel, offering one Equiticorp share for every eight NZ Steel shares.

The state has agreed to accept the offer, and will receive A$294m in cash for its Equiticorp shares by March 20 next year. These shares will be subject to options allowing Mr Hawkins's own companies to acquire them and retain 40 per cent control of Equiticorp.

Other shareholders in NZ Steel will have the choice of accepting Equiticorp shares or 40 Australian cents cash for each NZ Steel share.

Following completion of the bid, Equiticorp will be joined by Fisher and Paykel, the white goods manufacturer which is 22 per cent owned by Equiticorp, as a 20 per cent shareholder in NZ Steel.

According to Mr Hawkins, the offer places a value on Equiticorp's shares of A$3.17 each - significantly higher than yesterday's level on the plunging New Zealand share market.

He said the acquisition would add immediately to the group's profits, strengthen its cash flow and increase its assets by some A$810m.

NZ Steel, Mr Hawkins added, would continue to operate as an independent stand-alone manufacturer of steel. The present chairman and managing director would be invited to retain their positions.

Apart from Fisher and Paykel, Equiticorp has stakes in Feltex, the New Zealand manufacturer, and Monier, the Australian building products group. All are significant users of steel.

Banesto to cut stake in Agroman to 41%

BY DAVID WHITE IN MADRID

BANCO ESPANOL de Credito (Banesto), the Spanish commercial banking group, has applied to place 30 per cent of the capital of Agroman, the country's second largest construction concern, on the stock markets of Madrid and Barcelona, reducing its own holding to 41 per cent. The operation is worth a total Pta9.5bn ($81m).

The 2.3m shares, nominally valued at Pta750 each, will be priced at Pta4,125 each, and part of the total will initially be placed among Banesto shareholders and employees of the construction group.

Banesto, which has long-standing ties with Agroman, took its majority stake last year in a Pta17bn operation to boost the company's equity base and reduce its burden of debt with the bank. At the time Banesto paid 200 per cent of nominal for the new shares, compared with the price of 550 per cent attached to the planned placing.

The remaining shares in Agroman are held mainly by the family of Mr Jose Maria Aguirre Gonzalo, its founder and former Banesto chairman, and another related bank, Banco Guipuzcoano, with about 10 per cent listed on the Bilbao stock exchange.

Agroman's net earnings improved fivefold last year to Pta282m on sales of Pta53bn, and the company is forecasting net profits of Pta900m for this year and Pta2.2bn in 1988.

●Telefonica, the Spanish telecommunications utility, is expected to take a stake in California Micro Devices, a maker of high performance semiconductors, as part of an agreement to establish a joint venture producing specialised integrated circuits for the European market.

CMD said the project, in which each company would own a third along with other undisclosed investors, would be based in Spain and have assets of some $30m. It added that Telefonica would invest some $5m in CMD shares.

Procordia to acquire Reckitt offshoot

By Sara Webb in Stockholm

PROCORDIA, the Swedish state holding company which was recently partially privatised, has agreed to acquire the Reckitt Group, which is part of Reckitt & Colman, the UK household, toiletry and food products company, for SKr98m ($15.6m).

The Reckitt Group consists of office cleaning operations in Sweden and Denmark, and has a turnover of SKr378m, though SKr329m of this comes from Sweden. It has profits (after financial items) of SKr9m last year and has a staff of 3,900.

The British group said this deal marked the completion of its divestment from industrial cleaning where its operations in the UK were sold earlier this month to BET's Initial Services offshoot for £12.75m ($21.4m).

Reckitt added that it would now be able to concentrate more resources on international branded consumer products and pharmaceuticals.

Procordia said that it is planning to build up its existing small-scale office cleaning operations as part of its services division. Presently, Procordia has an office cleaning business in Norrkeeping which it said is geographically complementary to the Reckitt group operations in Sweden.

The service division accounts for about 25 per cent of group turnover.

Mr Goran Linden, deputy head of Procordia's services section, said that the aim is to build up the service division so that customers could be offered a range of services. Procordia has a hotel/catering chain called Sara and a security/watchman service called Abab.

"With the office cleaning service we can offer customers a more complete service concept - security, cleaning and catering," said Mr Linden.

PAL back in the black

PHILIPPINE AIRLINES (PAL), the state airline which is destined for privatisation once its financial position stabilises, returned to a 318m peso ($15.1m) net profit for the year to March against a 1.9m peso loss, Reuter reports from Manila.

The profit, the first for six years, came from an increase in the number of passengers carried and reduced operating expenses, according to Mr Dante Santos, PAL president.

Operating revenues rose to 10.04bn pesos from 8.15bn pesos while operating expenses fell to 8.52bn pesos from 8.72bn pesos. Passenger revenue rose 25 per cent to 7.67bn pesos and cargo revenue 23 per cent to 1.12bn pesos.

Last August government officials said the planned privatisation of the flag carrier would be postponed for at least three years to allow it to improve profitability.

Carnegie well ahead at eight months

BY OUR STOCKHOLM CORRESPONDENT

CARNEGIE, the Swedish retailing, wholesale, property management, and financial services group, achieved a 24 per cent increase in profits after financial items to SKr157m ($24.9m) for the first eight months of 1987, helped by the stronger performance of the retailing and wholesale business areas.

Group sales rose by 5 per cent to SKr13.189bn. Carnegie expects full-year profits to exceed the 1986 figure of SKr344m after financial items.

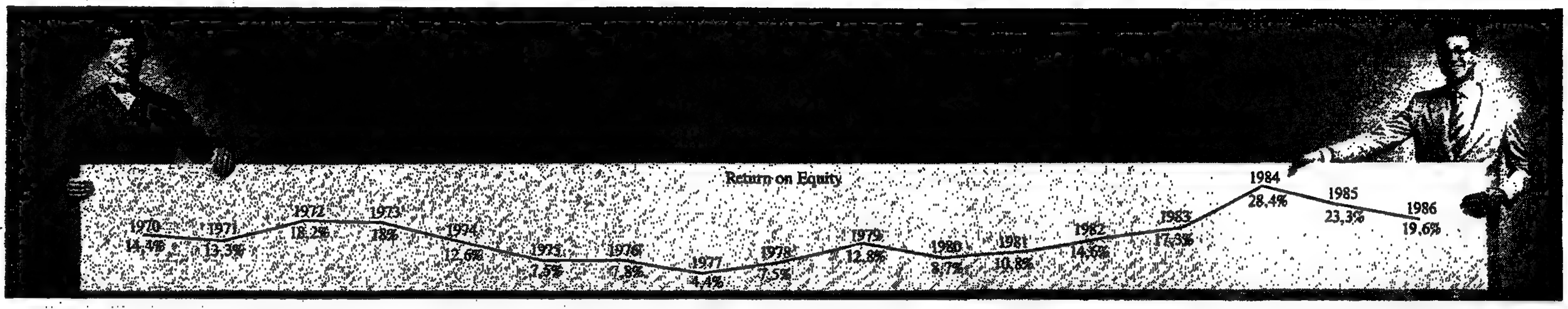
Profits for the retailing and wholesale business area rose by 41 per cent to SKr155m, even though large profits in retailing are normally associated with Christmas shopping.

Sales at Ahlens, Carnegie's department store chain, rose by 4 per cent to SKr3.908bn and losses were reduced from SKr75m to SKr61m.

Carnegie's brokerage and finance operations showed a fall in income after financial items from SKr220m to SKr180m. Brokerage and commission revenues fell by 20 per cent to SKr130m due to lower volumes on the stock exchange at the start of the year.

Volvo's Law of Averages.

For the Astute Investor.



Volvo has paid a dividend every year since 1935 when its shares were first introduced on the Stockholm Stock Exchange.

Volvo's dividends have never been lowered. In fact, over the past five years they have increased 19 percent on average each year.

A Volvo share purchased a decade ago has provided a 26 percent average annual return on its initial investment.

Volvo shares, viewed over this period, have represented steady, stable growth for canny investors.

Volvo has reported a 21 percent average return on equity over the past five years.

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INTL. CAPITAL MARKETS

Stephen Fidler reports on the whipsawing world bond markets

Fixed-income values reassessed

WORLD BOND markets whipsawed violently yesterday as collapsing share prices led to reassessment of values of fixed-income securities. Again, the US Treasury bond market led the way, where bond price swings were unprecedented. The price of the benchmark 30-year bond, which dropped below 88 on Monday, rose to a high of 98½ yesterday, before closing in Europe at about 95, nearly 4 points up on the opening.

But most activity focused on the shorter end of the US market, particularly on Treasury bills where yields dropped by as much as 1¾ percentage points.

Most dealers and analysts admitted they were at a loss to explain why yields on a US government bond maturing in the year 2017 should fluctuate more than one percentage point in a day.

Much of the sharp rise late on Monday and early yesterday could be put down to frantic covering of short positions by bond trading houses which suddenly found themselves on the wrong side of the market. Many of these houses probably suffered what the Americans call a "double whammy," carrying inventories of shares where prices were falling and carrying short positions in bonds which were going up in price.

Undoubtedly though, several factors, most linked to collapsing stock markets, have become apparent which suggest investors had become too bearish on bonds. The prospect that bond markets could well provide a home for the funds which have deserted the beleaguered stock markets certainly helped sentiment for fixed-income securities.

Nevertheless, sellers in the US stock markets on Monday will not be able to access their funds until next Monday, after the seven-day settlement period. So it is not this money which has made its way into the bond markets. "There are a lot of doubts about how faithful these new investors will be to the bond market," said one US Treasury bond dealer in London.

Before the share price collapse, many analysts had pointed out that six months of declines in bond prices had pushed bond yields to an unsustainable premium over stock yields. While there is a limit to the extent to which further falls in stock markets can benefit bond markets, the collapse of stock prices so far has not presented an imperative for further bond price falls.

Furthermore, the fall in the US stock market may contain within it something to neutralise some of the US bond market's dominant concerns, namely the huge US trade deficit, higher interest rates and higher inflation.

Falling stock prices affect the real economy in at least two ways. They make it more expensive for companies to raise capital through new share issues, slowing the pace of investment spending, and reduce the the wealth of investors - some $500bn was wiped off US investors' balance sheets on Monday alone - which could be expected to lower consumption spending.

Both can be expected to increase the prospect of a slowdown in growth, reducing the chances that interest rates will be pushed higher and heightening the chance of recession, and to reduce spending on imports.

More immediately too, the Federal Reserve, which underlined its commitment yesterday to provide liquidity should it be needed to protect the financial system, is unlikely to tighten monetary conditions when the stock market is in such a precarious state.

Shrinking demand can also be expected to calm fears about inflation. Mr Larry Anderson, chief economist at Deutsche Bank Capital Markets in London, says: "The inflation fear has been misplaced."

Mr D. Sykes Wilford of Drexel Burnham Lambert in London, commented yesterday: "With this potential fall in aggregate demand, concern will shift from inflation to deflation."

It was a view echoed yesterday in West Germany by Bundesbank president Mr Karl Otto Poehl, who described inflation fears in Germany as exaggerated and unjustified. Indeed, the prospect for interest rate increases in West Germany, Japan and the UK seems to have faded with the crashing share prices.

The extent of falls in stock markets has focused attention on the differences between investors in shares and those in bonds. The debatable hypothesis is that, in contrast with bonds where institutional investors dominate, more and more small, less sophisticated investors now participate in share markets worldwide. Selling by small investors of shares, and unit trusts, makes for a destabilising influence, the argument runs.

Helping steady the bond markets after Monday's nervousness was renewed confidence in the Louvre accord on currency stability, fostered by the private meeting on Monday between Mr James Baker, US Treasury Secretary, and Mr Gerhard Stoltenberg, the Finance Minister of West Germany.

The February agreement was critical to West Germany and remained in place, Mr Stoltenberg said yesterday, a factor in the subsequent strength both in the dollar and the dollar bond markets. Both weakened early on Monday on the belief that a break-up of the agreement would result in a still lower dollar.

One possible corollary, though, to the exchange rate stability which Mr Poehl and Mr Stoltenberg were yesterday assuring the world was possible is often interest rate instability. And there was no shortage of that in the world's bond markets yesterday.

With the Bundesbank carrying out repurchase agreements at a fixed rate of 3.8 per cent - after last week accepting bids at an average rate of 3.85 per cent - confirmed expectations that it would indicate lower money market rates.

The domestic government bond market gained by an unprecedented 395 basis points at the top end, while Eurobond prices gained by up to 1½ points at one stage, easing by some 15 basis points late in the day.

The Japanese government bond contract on the London International Financial Futures Exchange rallied 200 basis points in lunchtime trading, but fell back later. In trading of the physical bonds, the benchmark No 89 government bond closed with a yield of about 5.91 per cent, compared with 6.11 per cent yesterday. Euroyen issues were about ¾ points firmer at the longer end.

In French francs, trading was halted twice on the MATIF futures market for the maximum permitted upward movements. The active December contract closed the day over 8 points higher.

Guilder bonds opened up by about a point, rallied to three points better before ending the day up by 1½ to 2½ points. Ecu bonds ended the day about 1 to 1½ points better.

The volatility led to the virtual cessation of trading in large areas of the Eurobond market yesterday. Little business was done in any equity-linked issues.

Quiet day for new issues

AMID THE turmoil in the world's bond markets, the new issue sector of the Eurobond market was quiet yesterday.

In lire, the European Investment bank brought a L100bn six-year straight bond with a par price and 12 per cent coupon through Cariplo.

A two-tranche issue for Centrust Savings Bank of Miami was brought to market by Banque Paribas Capital Markets and IBJ International. The first Y2.7bn non-callable tranche carries a 6 per cent coupon, a 1992 maturity and a 101¾ issue price while a second carries a 1994 maturity, 5¼ per cent coupon and a 101¾ issue price. The bonds are not expected to trade widely.

A $100m Japanese equity warrant issue for Intec was withdrawn by Nikko Securities following sharp declines in the Tokyo stock market. The possible pulling of a number of other equity warrant issues both in dollars and Swiss francs is being considered in view of the lack of demand for warrants.

In Swiss francs, where in secondary trading straight foreign bonds fell by about a point while the Japanese equity linked sector was under extreme pressure with some bank convertibles down by as much as 20 points, Kyushu Electric Power launched a Sfr150m seven-year straight bond with a 5⅛ per cent coupon and a par issue price through Swiss Bank.

Handelsbanken fires two over options trading

By Sara Webb in Stockholm

SVENSKA Handelsbanken, Sweden's third largest commercial bank, has fired two employees for illegal options trading which could involve losses of up to SKr100m ($15.9m).

The bank said the incident was not connected with the stock market free-fall and the illegal transactions had taken place over the last month. They were uncovered during routine checks on Monday evening.

The two employees are an options broker at Handelsbanken's main office and a branch manager. The two have been sacked for "acting totally beyond their instructions," trading in their own names and for customers. Mr Tom Hedelius, Handelsbanken's chief executive, has informed the police and the bank inspection board. The bank may pursue legal action against the two employees.

Estimates of the losses vary between SKr50m and SKr100m, at a time of great uncertainty in the equity market. However, Handelsbanken is insured for losses up to SKr200m under the clause of malicious acts against the bank.

Though this is the first incident of this kind at Handelsbanken, there have been several cases in Sweden recently of improper options trading resulting in considerable losses for the organisations involved.

Steep fall at Allied-Signal

By Our New York Staff

ALLIED-SIGNAL, the diversified US industrial group with interests in automotive and aerospace components and engineered materials, has reported sharply lower third-quarter earnings.

Net income was $174m or $1.02 a share in the September quarter, against $164m or 91 cents last year. But the latest results include a $82m or 49 cents a share gain from the public offering of stock in the United Texas Petroleum Holdings subsidiary. Sales increased from $2.44bn to $2.68bn.

Mr Edward Hennessy, chairman, said operating income and margins were up in the automotive business and the engineered materials divisions, which include chemicals, plastics and fibres, by 8 per cent and 33 per cent respectively.

But a big increase in development spending and more competitive bidding for US government contracts caused a 46 per cent drop in net income from aerospace components.

At the nine-month stage net income was $529m or $3.01 a share, against $536m or $2.88. Revenues rose by 11 per cent to $8.16bn.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on October 20

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7⅞ 92	200	†90	90½	+1¼	+0⅛	10.38
All Nippon Air 9¼ 97	100	187⅛	87⅝	+0⅛	−2⅛	11.54
American Brands 8⅞ 92	150	†95	95½	+3⅛	+1⅝	10.16
A/S Eksportfinans 7⅞ 93	100	187⅞	88⅛	+2⅛	+1	10.38
A/S Eksportfinans 7⅞ 92	150	197⅞	88	−0⅛	−1⅛	10.98
[illegible]						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 4⅞ 94	45	90⅞	90½	+0⅛	−0⅛	6.46
E.I.B. 4⅞ 94	40	90⅞	90½	+0⅛	−0⅛	6.47
Elec. De France 5⅞ 94	20	93	93½	+0⅛	−0⅛	6.43
Kansai Electric 6⅛ 94	60	98	90⅞	+0⅛	−1⅛	6.52
Norway 4⅞ 92	60	92⅞	93⅞	+0⅛	−0⅛	6.20
[illegible]						

OTHER STRAIGHTS [illegible]

FLOATING RATE NOTES [illegible]

DEUTSCHE MARK STRAIGHTS [illegible]

CONVERTIBLE BONDS [illegible]

SWISS FRANC STRAIGHTS [illegible]

* No information available—previous day's price

† Only one market maker supplied a price

[illegible]

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Beazer profits show £41m advance

RECORD pre-tax profits of £72.3m were announced yesterday by C H Beazer, international property and building group, for the year to June compared with £31.1m last time. Included are full-year figures from Kier and an eight-month contribution from last November's US acquisition, Gifford-Hill.

Turnover for the year doubled, from £507.1m to £1.03bn.

To reflect the group's performance the directors are proposing a 15 per cent increase in the total dividend to 5.37p (4.67p) with a final of 3.62p (3.14p). Earnings per 10p share rose from 17.21p to 20.12p basic and from 15.85p to 19.03p diluted.

Mr Brian Beazer, chairman, reported that housebuilding, both in the UK and US, had traded well in the year and all regions performed in excess of budget. Average sales price rose from £36,100 to £47,500.

In the US there were 508 (255) completions through the company's Atlanta operation and Phillips Builders, the largest housebuilder in Nashville, acquired in April 1987. The directors were looking for in excess of 800 completions in the US in the current year.

Good progress was made with its UK property activities in both development and investment.

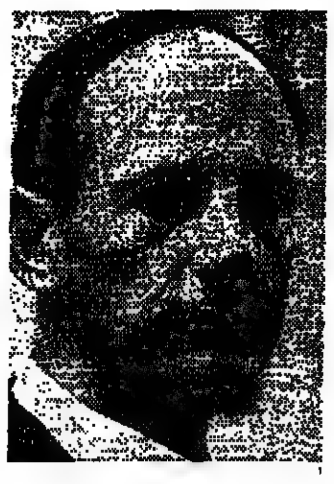
Kier, which has been consolidated for the full year for the first time, achieved increased turnover and profits, principally through organic growth.

The directors said Kier had successfully made the transition from being primarily a civil engineering company to becoming one of the leading international contractors with a wide range of skills.

Gifford-Hill, Beazer's most important acquisition in the past year, achieved its results, the chairman said, despite the withdrawal of tax incentives on new building.

The largest profit contribution for the year came from Beazer's homes and property division, with £46.9m (£30.1m), although the steepest increase was the jump from £1.8m to £26.4m in building materials.

The chairman said that markets were buoyant and the group was exceptionally well placed to achieve organic growth and the further development of its business.



Brian Beazer, chairman.

The pre-tax result was after a doubling of interest charges to £18.4m (£9.5m).

• comment

C.H. Beazer yesterday topped nearly everyone's expectations, and the attractiveness of the shares is boosted not only by good prospects for the coming year, but by Mr Beazer's indications that the large paper issues of recent years have come to an end. Future acquisitions will be for cash, with the group's current borrowing at £130m, compared to shareholders funds of £450m. Those share issues supported a geographic spread of the group to the US and the Far East, and took it into several sectors of the building industry, all of which makes the group far more resilient. Only a substantial rise in interest rates looks capable of halting Beazer's fast growth. Pre-tax profits of £105 in the current year would put the shares on a prospective multiple of 9.5, after yesterdays 27p fall in prices to 221p. Unless all standards for valuing shares have vanished in the last two days, that would appear a bargain.

Nigerian setback for Paterson Zochonis

A FALL of over 21 per cent from £42.29m to £33.26m in pre-tax profits of **Paterson Zochonis**, manufacturer of soaps toiletries and pharmaceuticals for the year to May 31 is accompanied by the warning of a further 25 per cent reduction in profit in the half year to November 1987, compared with the same period of 1986.

The problem lies with operations in Nigeria, where the fall in the value of the Nigerian currency from the equivalent of 61p in May 1986 to 14p in May 1987 and the effect this had when translating local currency profits into sterling has more than accounted for the reduction in profit.

Tight monetary policies operated by the Nigerian government have reduced consumer purchasing power and demand, so that production has had to be scaled down again. There is considerable overstocking in the market generally and competition naturally is strong, said Mr John Zochonis, the chairman.

Profits of the Cussons group showed a further satisfactory increase with the UK, Australian and Kenyan companies all doing well. A small soap factory has been acquired in Thailand and the new factories in Australia and Kenya should be commissioned in the coming year.

Minerva in Greece had its best year to date but the Interparco group companies were badly hit by depressed conditions affecting most of the West and Central African countries where they operate. In the current year, the Nigerian naira has been relatively stable around 14p and the government continues to pursue stringent deflationary policies.

Elsewhere, all Cussons operations and Minerva have made a satisfactory start to the year.

Turnover fell last year from £241.73m to £207.93m and operating profits were down from £25.88m to £18.97m. The share of profits of related companies amounted to £5m (£10.4m) while investment income, less interest payable, was £9.29m (£6.03m).

Taxation was £12.16m (£20.95m) and minority interests £35,000 (£165,000). Helped by a lower proportionate tax charge, earnings per share were only slightly lower at 42.74p (42.97p).

The proposed final dividend is 5.35p (4.85p) per 10p share to make a total of 7.1p (6.5p).

• comment

Cussons continues to do modestly well for Paterson Zochonis, but in the year just ended the Nigerian exchange rate hit group profits as the naira plummeted from 61p in May 1986 to 14p a year later. In the current year the exchange rate has steadied but Nigerian consumer spending has dropped and the outlook is for a further 25 per cent fall in group profits. Paterson nevertheless retains its unshakeable faith in the long-term outlook for the Nigerian marketplace and rejects any notion of a pull-out. Against this background the group's £80m or so of cash and liquid investments would make it look like a walking rights issue were it not for the the presence of a controlling family shareholding. As it is, the main attraction to the investor remains the sight of the interplay between one of Britains' most cautiously managed companies and one of the world most volatile markets.

GR profits jump 76%

Although turnover was reduced, GR (Holdings) increased pre-tax profits by over 76 per cent in the year to June 30, from a depressed £1.24m to £2.18m. The directors are proposing to lift the dividend total by 37 per cent to 9.6p with a final up from 5.4p to 8p.

The group has diverse interests including processing and merchanting sheepskins and furs, property transactions and the operation of Grayshott Hall, which provides health and leisure facilities. Its turnover for the year fell from £23.26m to £21.64m.

Sharp & Law 34% ahead

Sharp & Law, the Bradford-based shopfitting group which was floated on the USM in May, yesterday announced a 34 per cent increase to £229,000 in pre-tax profits for the half year to June 30 on turnover up 32 per cent to £6.71m.

An interim dividend of 1p is being paid.

The directors said that even after taking into account recognised seasonal trends, most contracts being completed in the second half of the year, the results were extremely encouraging.

Goodman Fielder lifts RHM stake to 29.9%

By Mike Smith

Goodman Fielder, Australian food manufacturer, took advantage of the bear market in London yesterday to buy 31m shares in Ranks Hovis McDougall, taking its stake in its British counterpart to 29.9 per cent.

Ranks immediately denounced the purchases as a "hostile move which is wholly unwelcome and which is not in the long term interests of shareholders."

Goodman, which previously owned just under 21 per cent, said it had no intention of making a full bid and "would not contemplate doing so over the next six months in the absence of a material change in the circumstances" of Ranks.

The company said it wanted talks on co-operation in common business areas and wanted representation on the Ranks board.

Ranks said it was prepared to discuss possibilities for co-operation but made no comment on the request for board representation.

Goodman, which first bought into Ranks in August last year, began its latest purchases at about 10 o'clock yesterday morning following a 25p fall in Ranks' share price on Monday. Buying from a number of institutions it paid 348p a share.

Ranks' shares finished yesterday down 19p at 315p. At that price the company is capitalised at more than £1.06bn.

Although yesterday's statement is likely to rule Goodman out from making a bid for six months, under the Takeover Code, many analysts expect the launch of a takeover to be Goodman's eventual aim.

"Most people expect a bid to come within a year," said Mr John Baxter, analyst at Kleinwort Grievesen Securities. "You do not need to invest £330m for joint ventures and co-operation."

Mr Peter Large, a corporate finance director at Hoare Govett, advising Goodman, said Goodman had been considering increasing its stake in Ranks for some time but the move had hinged on availability of shares and price.

PHOENIX TIMBER GROUP has acquired Dransfield Timber from Evered Holdings for a cash consideration of £411,000.

Wembley Investment in reverse takeover of GRA

BY FIONA THOMPSON

GRA Group, greyhound racing track operator and property company, is buying Wembley Investment, the 100 per cent owner of Wembley Stadium in a move which gives control to Wembley.

The takeover values the privately-owned Wembley Investment at £68.5m, which GRA will pay by issuing 36.86m new ordinary shares of 5p each and 9.78m deferred convertible non-voting shares of 5p each.

Wembley will hold approximately 51 per cent of GRA's issued ordinary share capital, with the 36.86m new ordinary shares and assuming the deferred shares are converted in full.

Mr Brian Wolfson, chairman of Wembley, will be appointed chairman and chief executive of GRA. Mr Tony Clegg, chairman of the Mountleigh property group, Mr Jarvis Astaire, sports and entertainment promoter and Mr John Davey, BET director, will be directors.

Mr Wolfson said yesterday GRA's racing side would be retained. "There is a renaissance in greyhound racing, we have no plans to discontinue the greyhound operations."

GRA owns six greyhound stadiums, in Edinburgh, Birmingham, Portsmouth, Manchester and two in London - Wimbledon and Catford.

Wembley has enjoyed increased success in the last 18 months. Combined operating and rental income has risen from £11.1m to £15m. Last year, 3m visitors used Wembley's facilities, over 5m are expected in the current calendar year.

The shareholders of Wembley have undertaken not to dispose of any new GRA shares for 12 months after completion of the acquisition.

The value of the new ordinary shares, based on GRA's 150p share price when it was suspended on September 8, is £55.3m. On the same basis, and assuming all the deferred shares are converted, their value would represent an additional £13.2m.

GRA also reported its interim figures yesterday, for the six months to June 30, 1987. Pre-tax profits were £853,000, compared with £548,000 for the six months to April 30, 1986, on turnover of £5.52m (£5.12m).

The tax charge was £300,000, compared with £208,000 last time. An extraordinary credit of £9.10m (£379,000) represented the surpluses arising from the sale of the Harringay Stadium in north London and Glasgow's Shawfield Stadium.

Earnings per share, before the extraordinary credit, were 1.28p, compared with 0.79p. There is no interim dividend. The board proposes to take this into account when a final dividend is considered.

Leisure Invs doubled to £1.9m

Leisure Investments, operator of amusement centres and snooker clubs, which earlier this year unsuccessfully bid for GRA Group, reported record pre-tax profits for the year to the end of June 1987. The figure included a profit of £495,000 on its GRA investment, taken as an exceptional item.

On turnover up 82 per cent to £5.57m (£3.07m) taxable profits more than doubled from £808,000 to £1.86m. Earnings per 10p share came out at 4.81p (2.97p) and the directors are proposing a final dividend of 1.095p for a total of 1.45p. Last year there was a single final payment of 0.355p.

Mr Stephen Forsyth, chairman, said that the core activities would continue to expand and he was very confident of their strength for the future.

He said that the snooker division performed as expected with the poor summer weather helping income. A club in Surrey is being acquired and two more clubs are scheduled for opening next year.

The amusement division again performed well.

In the present year an agreement has been signed with Sheraton Hotels for the management of a casino in Istanbul.

Other developments included the beginning of trading by the catering division towards the end of June and the acquisition of the Tony Roma UK franchies.

United Guarantee takes up option on DRX stake

BY DINA MEDLAND

United Guarantee (Holdings), distribution, services and energy company, is to exercise an option to subscribe for 1m common (ordinary) shares in DRX, a US company, at 50 cents (31p) per share, the company announced yesterday.

DRX is being developed into a gold and precious metals investment group following a recent private placement of 3.5m new ordinary shares at 50 cents a share and the sale of its energy interests earlier this year. It is listed on Nasdaq and the Boston stock exchange.

The option will give United just under 15 per cent of the enlarged capital of DRX and is being exercised in order to provide "an investment stake" in the company, said Mr Robert Clarke, chairman.

United also announced the completion of the acquisition of Rock Engineering Distributors and Gregory & Sutcliffe, suppliers of engineering cutting tools and related equipment from seven warehouses in the UK, for £770,000 in cash.

BDA sharply ahead at £0.5m

BDA Holdings, the London housebuilder which came to the market in May, yesterday reported pre-tax profits up from £189,000 to £459,000 in the half year to July 31. Turnover grew from £1.12m to £1.69m.

In addition to its internal growth, the company was examining a number of acquisition possibilities.

Historically, the company has produced the greater proportion of its annual profits in the second half and this year is expected to be no exception.

As foreshadowed, the interim dividend is 1p.

UK COMPANY NEWS

Market slump hits issues and bids

BY CLAY HARRIS, RICHARD TOMKINS AND LISA WOOD

THE SHARP decline in London share prices has disrupted the UK new issue market and is making itself felt in the few contested takeover battles now under way. The potent power of a cash bid in a falling market has been rediscovered.

New issue activity has virtually ground to a halt because of the difficulty of pricing companies' shares - or, indeed, finding anyone to buy them - in such volatile conditions.

At least six companies which had planned to come to the main market or the USM in the next few days have cancelled or postponed their plans. Others with flotation dates further ahead are waiting to see how the market settles before deciding whether to proceed.

On the takeover front, S&W Berisford and Matthew Brown, the two largest British companies facing hostile bids at present, both found yesterday that their share prices had slipped well below their suitors' cash offers.

Shares in Berisford, the sugar producer and commodities trader resisting a bid worth £767m from Associated British Foods, yesterday lost 25p to 388p, compared with ABF's 400p all-cash offer.

As a result, Berisford is now unlikely to keep its defensive powder dry until after the first closing date on November 5. Mr Howard Rix of Charterhouse, Berisford's merchant bank adviser, predicted that the defence would shift its stance "to be more aggressive earlier rather than later".

Although he expected a recovery in Berisford shares - and in the market - before November 5, Charterhouse could no longer count on the usual pattern of shareholders waiting for an improved offer before making their decision.

Schroders, advising the Blackburn brewer Matthew Brown in its defence against Scottish and Newcastle Breweries' £186m bid, also tried yesterday to find consolation in the face of a30p decline to 725p, against the 750p cash offer.

The merchant bank admitted that the cash (if not the 672p value of S&N's paper offer) looked attractive but questioned what actual gains would be for shareholders after tax.

"It would be a shame," Schroders said, "if the fall in the market wiped away the commercial arguments against the bid. However, there is some time to go before shareholders have to decide."

Mr Peter Cadbury of Morgan Grenfell, adviser to S&N, said that the events of the past few days meant that "an offer with a full cash alternative was particularly relevant and important".

Among new issues, one of the first casualties was Paragon Communications, a public relations consultancy which had planned a USM placing tomorrow.

"We are bitterly disappointed but obviously there was no way we could go ahead in these conditions," said director Mr Christopher Joll. "We have incurred a lot of costs in preparation for the flotation and we hope to press on with it as soon as the market settles down."

The Company of Designers, an architectural and building design practice, had planned a USM flotation yesterday but pulled out when the market continued to plummet. It said it was ready to float at a moment's notice as soon as conditions improved.

Three more companies have postponed flotations on the USM. Blazer, a menswear retailer, has put off until next Wednesday the placing which had been due tomorrow; Copymore, an office machine supplier, has abandoned for the moment the placing it had planned for next Tuesday; and Allied Restaurants, a Wimpy franchisee, has put off its placing tomorrow.

On the main market, Crawley Warren, the specialist Lloyd's broker, has postponed its plans for a placing on Friday.

Other companies with flotations planned for November say that they are confident of going ahead with their flotation plans if the market firms up, but they accept that their issues may yield rather less in proceeds than they might have hoped a week ago.

Brierley increases holding in S & N

BY LISA WOOD

Industrial Equity (Pacific), the Hong Kong subsidiary of Mr Ron Brierley's Brierley Investments has disclosed that its stake in Scottish & Newcastle Breweries has been increased to 5.88 per cent.

Scottish & Newcastle is currently making its third takeover attempt on Matthew Brown, the Blackburn-based brewer.

Industrial Equity (Pacific) now holds 18.5m S & N shares, built up over the past few years. Prior to S & N's bid for Matthew Brown earlier this month the stake is believed to have been under four per cent.

Mr Christopher Chalmers, S & N's finance director, said: "Mr Brierley and Industrial Equity (Pacific) have made no efforts at any stage to disguise the fact that they were shareholders. We've been led to believe that it has been an investment in what he considered to be an undervalued stock."

Mr Chalmers added: "At 5.8 per cent, it could be a very attractive sized investment for someone who wants to bid in the future. In all other respects he has been a very good shareholder."

Mr Brierley was in Australia yesterday and unavailable for comment.

Martins sale

Guinness has completed the sale of Martins, one of Britain's largest newsagents, to an Australian-based consortium in which Mr Rupert Murdoch's News International has a 22½ per cent stake.

The total consideration is expected to amount to £244m.

BET has acquired Aberdeen-based lifting specialist, Aberdeen Certification and Lifting from its private owners for £1.35m in shares.

Lonrho asked for future assurances on accounts

BY RICHARD WATERS

IN AN unusual move, the Department of Trade and Industry confirmed last night that it had asked Lonrho, the conglomerate run by Mr "Tiny" Rowland, for assurances about its accounts in future years.

This follows claims by stores group House of Fraser that Lonrho's 1986 accounts failed to comply with the requirements of the Companies Act.

The Department, which refused to say what the assurances were, said it had also asked Lonrho for a detailed explanation of its accounting policies and "additional background information".

The Stock Exchange and the Institute of Chartered Accountants said on Monday that they had completed separate investigations into Lonrho's accounts.

The Stock Exchange's investigation led to a letter to Lonrho "suggesting those matters on which they should consider giving further information", claimed House of Fraser yesterday. This contradicted a statement from the Stock Exchange on Monday that it had no complaints about the Lonrho accounts.

The Stock Exchange refused to comment further yesterday. Lonrho would only say that there were no outstanding investigations into its accounts.

House of Fraser's complaints were backed by accountants Arthur Young, while Lonrho's accounts elicited a clean audit report from Peat Marwick McLintock. The Stock Exchange said that it had also called in an "independent firm of accountants".

Allebone agrees to cash offer from Charterhall

BY MARTIN DICKSON

Charterhall, the fast-growing investment company headed by Mr Russell Goward, an Australian entrepreneur, yesterday confirmed the launching of an agreed cash offer for Allebone, the shoe retailer, valuing the company at £38.5m.

The bid represents a major diversification for Charterhall away from oil and gas. The company said that apart from its investment in Allebone it was continuing its diversification search, particularly in the areas of specialist retailing, security, dry-cleaning, commercial laundry, office services and supplies. It was also seeking to expand its oil and gas activities, principally in North America.

Charterhall is offering 120p a share in cash for each Allebone ordinary, with a loan note alternative. Allebone shares closed last night at 110p, up 13p on the day.

Charterhall, which had built up a large stake in Allebone in recent months, said yesterday that it had now taken its holding up to 43.3 per cent through market purchases and the acquisition of a 13.4 per cent stake from the Throgmorton Trust.

The directors of Allebone are recommending acceptance of the offer. Charterhall intends to retain the listing of the company and said Allebone would continue the expansion strategy adopted by its directors over the past year.

CIC in £9m Swedish buy

Cambridge Instrument Company, the scientific equipment manufacturer, has agreed to buy the sectioning instruments business of LKB, a wholly-owned subsidiary of the Swedish drug company Pharmacia, for some SKr95m(£9m) in cash.

The bulk of the purchase price- SKr60m - will be payable on completion, expected to be on October 30.

LKB's sectioning business made pre-tax profits of some SKr9m before interest charges on turnover of SKr80m in 1986. The business is estimated to have net assets of SKr12m.

Over the next 18 months the manufacturing operations of the business are expected to be transferred to the company's facilities in Europe. Cambridge Instrument made pre-tax profits of £7.7m(£4.44m) after interest payments of £1.4m(£773,000) for the year-ended March 31.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Ancher Chemical ....int	2.5	Nov 27	1.25	-	5
BDA Holdings ....int	1	Nov 26	-	-	-
CH Beazer ....fin	3.62	Jan 4	3.14	5.37	4.67
Bertrams Inv Tst ....fin	1.1	-	-	2.1	-
Boot (Henry) ....int	5	Nov 25	3	-	10
Davies & Newman ....int	4	Jan 30	3	-	13
Derwent Valley ....int	0.75	-	0.75	-	4.68
GR Holdings ....fin	8	Dec 18	5.4	9.6	7
Leisure Invs ....fin	1.1	Jan 30	0.36	1.46	0.36
Lends ....int	1.5†	-	-	1.5	1.3
Paterson Zoch ....fin	5.35	Dec 8	4.85	7.1	6.5
Petrocon ....int	nil	-	1	-	2
Sharp & Law§ ....int	1	-	-	-	-
Silentnight ....int	1.75	Jan 4	1	-	3

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡Unquoted stock. ØThird market. ‡In lieu of final.

BOARD MEETINGS

TODAY

Interims- Baradin Holdings, Carlton Industries, Chillington Corporation, Comprehensive Financial Services, Conrad Holdings, Grand Central Inv. Holdings, Hawker Siddeley, House of Lerose.

Finals- Manchester & London Investment Trust, Royal Trust Government Securities Fund, Royal Trust Japan Growth Fund, Tottenham Hotspur.

FUTURE DATES

Interims-

Airflow Streamlines	Oct 29
Amercoeur Energy	Oct 23
Aquascutum	Nov 6
Bank of Ireland	Nov 12
Blackett Hutton	Oct 29
City of Oxford Inv Trust	Oct 28
Comac Group	Oct 26
Cundell Group	Oct 28
Eastern Produce	Oct 30

Finals-

Malartic Hygrade Gold Mines (Canada)	Nov 4
Manchester & London Inv Trust	Oct 21
Tyson (Contractors)	Oct 29

UK COMPANY NEWS

Henry Boot rises 25% to £931,000 at midway

HELPED BY an improvement in the UK economy, Henry Boot & Sons, which has interests in construction, railway, engineering, property and investment, boosted taxable profits by more than 25 per cent in the first six months of 1987.

Profits climbed from £740,000 to £931,000 on turnover only slightly ahead from £67.53m to £68.58m.

The directors declared an increased interim dividend of 5p (3p). After tax charges of £187,000 (£72,000), earnings per 50p share moved up from 12.6p to 13.7p. There were no extraordinary items; last time there was a debit of £1.94m.

Mr David Boot, chairman, said that the volume of contracting work for the construction companies increased after a slow start to the year, although margins remained highly competitive. Housebuilding continued its profitable expansion and the plant activity was enjoying a more buoyant market.

The railway engineering companies improved efficiencies but the decline and uncertainty of British Rail's requirements created difficulties in the planning and continuity of production resources.

On the international side, there were still unresolved problems in Hong Kong.

Mr Boot said that further progress was made by the property development company to provide a solid platform for improved performance in the future. Property investments continued to contribute materially to group profits, and the training company was expanding.

Management buy-in at Nesco

BY MIKE SMITH

ENTREPENEURS Robin Lodge and Brooke Johns yesterday announced plans for a management buy-in at Nesco Investments, the vehicle retailing and energy production group.

Mr Lodge and Mr Johns are injecting £1.98m into the company for which they will receive 1.1m new shares. Together with another 400,000 ordinary they are buying from existing shareholders, this will give them a 37.37 per cent stake in the company.

Their company, Baytree Investments, is obliged under the Takeover Code to make a bid of 180p for each of the other shares held in the company - the same as they are paying for their stake - but with the share price staying well above this yesterday the offer is unlikely to be taken up in large numbers.

In any case Mr Lodge and Mr Johns want to retain the listing and they intend to place, through broker Sheppards, any shares assented to the offer.

Mr Lodge and Mr Johns will become chairman and deputy chairman of Nesco. They plan to build up the company through acquisitions in Nesco's present fields of activity.

Nesco, which first came to the market in 1929, has its main interest in Nigerian power stations. It also has a car retail business in the Midlands.

Mr Trevor Trefgarne, chairman, said Nesco was a sound business but in recent years it had not had the opportunity to build up its activities, partly because of problems in the Nigerian economy.

A complete revamp would be possible with the new management and the cash injection.

Holders of more than 40 per cent of shares, including Mr Trefgarne who will resign from the board, have said they will not accept the cash offer for shares over and above the 37.37 per cent which Baytree has already agreed to buy.

Davies & Newman cuts loss in first half

Davies & Newman, the airline operator and shipbroker best known for its Dan-Air operations, reduced its pre-tax losses from £3.48m to £3.16m in the first six months of 1987. Turnover rose from £121.83m to £141.65m.

The directors lifted the interim dividend from 3p to 4p and after estimated tax credits of £1.11m (£1.26m), losses per share fell from 31.6p to 29.2p.

Mr Frederick Newman, chairman, said that the first half had conformed to the usual trading pattern of the airline. The shipbroking company had a disappointing result and very strenuous efforts were being employed to improve the situation.

Gatwick Handling had performed well and Dan-Smedvig, in spite of the severe cutback in North Sea operations, had remained active and was continuing to do so in the second half.

Last year's progress in Dan-Air was maintained; following a busy summer and barring unforeseen circumstances, he expected a satisfactory result.

Operating surplus totalled £8.51m (£7.28m); depreciation took £3.77m (£3.05m); aircraft hire, £7.69m (£6.59m); interest payable less that received resulted in a debit of £1.38m (£1.3m); and associated companies contributed £564,000 (£184,000).

Tubular heads for USM valued at £9m

Tubular Exhibition Group, a company which is mainly involved in the manufacture and hire of crowd-control crush barriers, is coming to the Unlisted Securities Market on Monday through a placing of shares which will value it at £9.13m.

Jacobson Townsley, stockbrokers to the company, are placing 12.5m ordinary shares on behalf of certain former shareholders of Tubular and 7.5m new ordinary shares on behalf of the company, representing in total 43.82 per cent of the enlarged issued share capital of the company. The shares are being placed at 20p.

Tubular is also involved in the building and hiring of structural steelwork for exhibitions throughout the UK, including Earls Court, Olympia and the National Exhibition Centre. It is seeking entry to the USM as a first step towards expansion of the business both organically and by acquisition, according to the prospectus.

The company was formerly Djember Holdings, an operator of rubber estates in Malaysia which was listed on the stock exchange until the cancellation of its quotation in 1969.

Tubular's prospectus reveals a patchy trading record. The company made pre-tax profits of £189,000 (£8,000) on turnover of £2.4m (£2m) for the year-ending March 31. A reduction in profits from £223,000 to £8,000 in 1986 resulted from the acquisition of Stonebert, a company acquired to expand Tubular's exhibition activities.

The company is half-way through its current financial year, which it says has started well. The directors see opportunities for expansion in its barrier-hire business (the Metropolitan Police force is a major client), its overseas exhibition trade, and chalet units designed for events such as the Farnborough Airshow.

The net proceeds of the issue will amount to about £1.5m which will be used largely to finance the increased working capital requirements of the company.

Derwent Valley well up

PROFITS before tax of Derwent Valley Holdings, property investor, rose from £105,000 to £818,000 over the first half of 1987. Earnings improved to 16.17p (2.08p) but the interim dividend is a same-again 0.75p.

Rents and interest received totalled £367,000 (£126,000) and profits from property trading amounted to £790,000 (nil). Interest charges accounted for £339,000 (£21,000) and tax for £295,000 (£36,000).

Directors said earnings growth reflected the benefits gained both from the existing portfolio and the acquisition of the Colebrook and Wilmar companies early this year.

Silentnight boosts profits past £3m at halftime

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

MR TOM CLARKE, chairman of Silentnight Holdings, the Lancashire bedmaker and home furnishings group, yesterday reported a £1.68m rise in profits to £3.31m pre-tax for the half year ended August 1.

Furthermore, he expected the full year result to show a substantial improvement over last year's £5.27m.

First half turnover was up nearly 17 per cent at £46.18m (£39.62m), reflecting both expansion through acquisition and sales growth of Silentnight's latest top-of-the-range beds, which have been sold on the back of a £2m television advertising campaign.

Silentnight now claims more than 25 per cent share of British bed markets and says it is benefiting from £6m of capital spending - the highest in the industry - to enable it to produce beds under licence which use the latest US technology.

The group has now recovered from labour relations problems, which resulted in the dismissal of 345 strikers and the collapse of 1986's full year profits to only £270,000. Numbers employed in the main bed manufacturing company are now at 900, about 100 up on pre-strike levels.

There are 3,000 in the group, recently strengthened further by the acquisition of Homeworthy, a Sunderland unit furniture maker, which had sales of £7m last year and has doubled Silentnight's share of this sector.

The half-year results were well ahead of the £2.75m-£3m forecast by Manchester brokers Henry Cooke, Lumsden, which recently reclassified Silentnight from a recovery to a growth stock.

The group also announced yesterday the retirement as chairman of Mr Tom Clarke, who used his wartime gratuity of £180 to found the business with his wife, Joan, a mattress maker, in 1945.

Mr Clarke said that strong management was now in place with Mr Chris Burnett, a Harvard Business School graduate, the chief executive.

The new non-executive chairman will be Mr Allan Nightingale, a Courtaulds director who is chairman of that group's textile business.

Lasmo in Canadian merger

BY LUCY KELLAWAY

London and Scottish Marine Oil, an oil independent, yesterday announced plans to merge its Canadian oil and gas operations with Onyx Petroleum Exploration, a quoted Canadian oil company. The new entity, which will be renamed Lasmo Canada, will have reserves of 9.5m barrels of oil and 30.9bn cubic feet of gas, and at present prices will be worth more than C$100m (£46.1m).

Under the proposed deal, Onyx will acquire Lasmo Canada in return for shares, giving Lasmo a 70 per cent stake in the new company, which based on the current Onyx share price of C$5 is worth about C$78m.

Mr Chris Greentree, chief executive of Lasmo, said yesterday that the deal would considerably expand the scope of Lasmo's operations in Canada, and was in accordance with the company's strategy of introducing local shareholders wherever appropriate.

Lasmo Canada will be quoted on Toronto, Montral and Alberta stock exchanges, and is expected to grow "as rapidly as possible through an aggressive exploration and acquisitions programme", Mr Greentree said.

Lasmo said its new subsidiary would have a strong financial position and would embark on a "substantial" programme of exploration and development in 1988. The new company has exploration and development prospects in Alberta and Saskatchewan.

GrandMet makes £21m Canadian spirits disposal

BY LISA WOOD

Grand Metropolitan, drinks, hotels and food group, has sold the spirits division of McGuinness Distillers, its Canadian subsidiary, to Corby Distilleries, a Montreal-based subsidiary of Allied Lyons/Hiram Walker for about C$46m (£21.2).

McGuinness is a wholly-owned subsidiary of Heublein, acquired by Grand Metropolitan from RJR Nabisco earlier this year. The sale of its spirits division is part of the rationalisation of Heublein.

Mr George Bull, chairman of IDV, GrandMet's wine and spirits subsidiary, said the group already had a strong presence in Canada through its subsidiary, Gilbey Canada.

Classic Thoroughbreds

The offer for sale on the Irish Smaller Companies Market of 6.67m ordinary shares with accompanying rights in Classic Thoroughbreds was more than three times oversubscribed.

In allocating the shares it was decided to favour the small investor and all applicants are to receive a minimum of 500 shares. In addition each applicant will receive approximately 15 per cent of the balance of applications above 500 shares.

Petrocon looking to make acquisitions

Petrocon Group, which was adversely affected in the past financial year by the sharp downturn in oil prices, reported yesterday that it had continued to trade at a loss in the first six months of 1987.

For the period turnover declined from £8.87m to £3.25m and at the pre-tax level losses rose from £331,000 to £528,000. The interim dividend is being omitted - shareholders received 1p last time.

Swire Petrocon, a south-east Asian oil tool rental services company in which Petrocon has a 50 per cent investment, is disposing of its fixed assets and inventories to a third party and, subject where necessary to the consent of other parties, its current contracts and certain other agreements.

Consideration is $3.2m (£1.9m) in cash consisting of an initial payment of $1m and deferred payments of the balance over a four year period.

The disposal means that the Petrocon Group will be totally withdrawing from the south-east Asia rental tool market. The directors said that trading losses originating from Swire Petrocon's activities had ceased as at the end of last month.

They added that while there would be an end-of-year write-off amounting to some £350,000 against the investment, the balance would be received in cash.

Shareholders were told that as a result of the progress made with its disposal programme Petrocon was now well placed in terms of both financial and management resources to implement the expansion programme referred to in the April statement. Several acquisition possibilities were being considered.

Share of losses of the associates was reduced from £242,000 to £159,000 in the opening six months. There were tax credits of £125,000 (£56,000) and minority credits of £34,000 (debits £6,000). Loss per 12½p share emerged at 2.93p (3.48p).

Anchor up 74% to £1.2m

An improvement of 74 per cent in Anchor Chemical Group's profits from £673,000 to £1.17m pre-tax for the half year to June 30 reflected improved profitability of the UK companies backed up by a good performance overseas.

The directors said the UK improvement stemmed from the income derived from the recent investment in new plant, a changed product mix and production efficiencies, resulting from larger scale manufacture and increased bulk handling of raw materials.

Turnover in the period rose by just £549,000 to £17.24m but the operating profit was up by 41 per cent to £1.53m showing an improvement from 6.5 per cent to 8.9 per cent in margins.

Amounts written off intangible fixed assets were the same at £30,000 while interest fell from £380,000 to £324,000.

Tax took £437,000 (£303,000) leaving earnings per share virtually doubled at 18.1p (9.1p). The interim dividend is doubled to 2.5p but the directors said this was to reduce disparity between payments.

They said the level of trading in both the UK and overseas experienced in the first half had continued into the third quarter, and there was every prospect of a very satisfactory result for the full year.

Overseas, Pacific Anchor Chemical again produced excellent results.

Lanca profits surge

Lanca, maker and wholesaler of handbags, increased its taxable profits by £100,000 to £293,000 in the first half of 1987. Turnover rose from £2.57m to £3.06m.

Tax took £99,000 (£87,000) and earnings moved up sharply from 1.16p to 1.91p.

The directors said that earnings were normally appreciably higher in the second half and the results for the year were expected to be most satisfactory.

Yearlings

The interest rate for this week's issue of local authority bonds is 10⅝ per cent, up ⅛ of a percentage point from last week and compares with 11¼ per cent at this time last year. The bonds are issued at par and are redeemable on October 26 1988.

A full list of issues will be published in tomorrow's edition.

Bank of Greece
US $150,000,000
Floating Rate Notes
due 1994

Notice is hereby given that the Rate of Interest relating to the above issue has been fixed at $9\frac{11}{16}$ per cent for period 21st October, 1987 to 21st January, 1988.

Agent Bank:
Morgan Guaranty Trust Company of New York
London

NOTICE OF REDEMPTION

CANON INC.
(Canon Kabushiki Kaisha)

6¾% Convertible Debentures Due December 31, 1994

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of Section 4.01 of the Indenture dated as of August 15, 1979 between Canon Inc. (Canon Kabushiki Kaisha) (the "Company") and Morgan Guaranty Trust Company of New York, as Trustee, (the "Indenture"), all of the above-mentioned Debentures outstanding under the said Indenture have been called for redemption on November 27, 1987 (the "Redemption Date") at the redemption price of 102.5% of the principal amount thereof (the "Redemption Price").

The Debentures shall become due and payable on the Redemption Date at the Redemption Price, plus accrued interest to the date fixed for redemption in the amount of $1,052.56 per $1,000 principal amount. Payment will be made on and after the Redemption Date upon presentation and surrender of (1) registered Debentures and (2) coupon Debentures together with all coupons appertaining thereto maturing after the Redemption Date at the offices of the Paying Agents specified below. From the Redemption Date all interest on the Debentures shall cease to accrue.

The right to convert the Debentures into Common Stock of the Company will terminate at the close of business on November 24, 1987, the second Business Day, as defined in the Indenture, immediately preceding the Redemption Date. Debentures to be converted should be surrendered in accordance with Section 3.02(a) of the Indenture at the offices of the Conversion Agents specified below on or before November 24, 1987. The Debentures are currently convertible into Common Stock of the Company at a price of yen 399.90 per share.

PAYING AND CONVERSION AGENTS

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

Morgan Guaranty Trust Company of New York
14, Place Vendome
75001 Paris

Morgan Guaranty Trust Company of New York
Morgan House, 1 Angel Court
London EC2R 7AE

Morgan Bank Nederland N.V.
12 Tesselschadestraat
P.O. Box 151
Amsterdam, Z. Holland

Morgan Guaranty Trust Company of New York
Avenue des Arts 35
B-1040 Brussels

Morgan Guaranty Trust Company of New York
38 Stockerstrasse
Zurich, Switzerland

Morgan Guaranty Trust Company of New York
Mainzer Landstrasse 46
6000 Frankfurt-am-Main West Germany

CANON INC.
(Canon Kabushiki Kaisha)

Dated: October 21, 1987

Any payment made within the United States, including any payment made by transfer to an account maintained by the payee with a bank in the United States, may be subject to reporting to the United States Internal Revenue Service ("IRS") and to backup withholding at the rate of 20% if payees not recognized as exempt recipients fail to provide the paying agent with an executed IRS Form W-8, certifying under penalties of perjury that the payee is not a United States person, or an executed IRS Form W-9, certifying under penalties of perjury the payee's taxpayer identification number (employer identification number or social security number, as appropriate). Those holders who are required to provide their correct taxpayer identification number on IRS Form W-9 and who fail to do so may also be subject to a penalty of $50.00. Holders should therefore provide the appropriate certification when presenting Debentures for payment.

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In the first instance contact Keith Mason on 01-828 7711 or write to him at Allington House, 136/142 Victoria Street, London SW1E 5LD.

Seymour Adelaide SA & CO LTD

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Telephone 01-628 4444

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As from Tuesday October 13th Stockbroking Division will be opening until 7.00 pm. every Tuesday. Why not take advantage of this opportunity to call in for a chat or phone:
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Standard & Poor's Corporation is a leading provider of financial information services. Rapid expansion in its global debt rating activities creates an exceptional opportunity, based in London, for a self motivated person to participate in the financial assessment of major European companies.

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Eurofi

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Managing Director
SME Services
Eurofi (UK) Limited
Guildgate House
Pelican Lane
NEWBURY
Berkshire RG13 1NX
Tel: 0635 31900

Jonathan Wren

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COMMODITIES AND AGRICULTURE

Copper and aluminium join the shake-out

BY DAVID BLACKWELL

COPPER AND ALUMINIUM prices fell sharply yesterday in heavy trading on the London Metal Exchange, following the turmoil in world stock markets.

Gold and other precious metals also fell in London yesterday — against the expectations of many pundits.

Three-month copper fell £119 to £1,056.50 a tonne at the close, and three-month standard aluminium closed down £87.25 at £1,048.50 a tonne.

On Monday, some analysts were predicting that gold could hit $500 an ounce by the end of the week if equities continued to fall. In the event the London bullion market price closed after a hectic day's trading at $466 an ounce, wiping out the strong gains made on Monday, when it closed at $481.50.

Analysts yesterday said that the decline in prices for both the base metals and the precious metals was partly due to holders liquidating their positions to raise cash in order to cover margin payments and equity losses.

Copper and aluminium are the most traded metals on the LME. They attract the attention of fund managers and private investors, making them more vulnerable to the general investment climate. In contrast lead, zinc and nickel prices closed higher yesterday.

The two leading base metals were also depressed by the underlying fear in the market that the tumbling equity markets could herald a world recession, analysts said. Both copper and aluminium prices have been advancing strongly this year, and the time was ripe for some profit-taking.

However, physical supplies of both metals remain tight, with stocks of copper in LME warehouses falling below 100,000 tonnes last week for the first time since the beginning of August. Once the dust has settled, analysts believe the base metals will present good buying opportunities again.

Noranda files tin suit against Canada

By David Owen in Toronto

NORANDA, the Toronto-based mining conglomerate, and its metals trading subsidiary Rudolf Wolff have filed suit against the federal Government of Canada in the latest of a series of attempts by companies to recoup losses stemming from the 1985 International Tin Council collapse.

The lawsuit, filed in the Supreme Court of Ontario on October 9, seeks damages of C$38m (£17.5m) and claims that the Canadian Government—which has a 2.3 per cent voting interest in the ITC—is guilty of a breach of contract, breach of fiduciary obligation and misrepresentation.

The move follows other unsuccessful attempts by companies to sue the 22 ITC member governments in UK courts. The High Court in London has ruled that it has no jurisdiction over an international body.

According to Noranda's lawyer Mr Alan Lenczner, the Government has 30 days to respond to the suit. Noranda anticipates a court hearing "probably in December." Among the allegations contained in Noranda's statement of claim is that unnamed government officials were aware that the ITC buffer stock manager was borrowing massive amounts of money.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,280-2,310 (2,270-2310).

BISMUTH: European free market min 99.99 per cent, $ per lb, tonne lots in warehouse 4.65-4.75 (4.50-4.65).

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots 2.70-2.95 (2.35-2.55), sticks 2.70-2.95 (2.35-2.55).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse 6.50-6.70 (same).

MERCURY: European free market, min 99.99 per cent, $ per flask, in warehouse, 305-310 (305-310).

MOLYBDENUM: European free market drummed molybdic oxide, $ per lb Mo, in warehouse 2.85-2.95 (2.95-3.05).

SELENIUM: European free market, min 99.5 per cent, $ per lb in warehouse, 6.35-6.50 (6.10-6.50).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit WO, cif, 39-53 (same).

VANADIUM: European free market min 98 per cent VO, other sources, $ per lb VO, cif 2.80-2.90 (2.75-2.85).

URANIUM: Nuexco exchange value, $ per lb UO, 1665 (same).

LONDON METAL EXCHANGE WAREHOUSE STOCKS
(Changes during week ended last Friday) (tonnes)

Aluminium standard	−375 to 58,425
high grade	+975 to 35,600
Copper	−7,675 to 72,325
Lead	−350 to 18,975
Nickel	−148 to 2,244
Tin	−195 to 20,420
Zinc	+5,025 to 35,650
	(ounces)
Silver	−160,000 to 20,034,000

MacGregor takes tough line at EC farm talks

BY QUENTIN PEEL IN LUXEMBOURG

MR JOHN MacGregor, the British Minister of Agriculture, yesterday spelt out grave doubts about the European Commission's proposals to step up income aids to the poorest farmers in the EC, to counterbalance the harsh consequences of the current reforms of the Common Agricultural Policy.

He also called for compensation payments to dairy farmers accepting cuts in their milk production quotas to be reduced and phased out more quickly.

The very tough British attitude on agricultural reforms was spelt out at the two-day EC Council of Agriculture Ministers, at which most other member states were seeking to soften, rather than harden the effects of the Commission's proposals.

A whole range of cost-stabilising proposals has been tabled by Mr Frans Andriessen, the EC Farm Commissioner, for every sector of the CAP—and the irony is that the UK Government now seems to be closer to the Commission's position on many key reforms than most other member states.

It rapidly became apparent yesterday that the divisions between the Agriculture Ministers remain far more fundamental than the common ground—although Mr Andriessen maintained that all now accept the need for some form of "stabilisers."

The British Government's shift on income aids—regarded by most member states as an essential quid pro quo for CAP reform—represents a significant hardening of its position, which was already much the toughest. It is also a direct assault on the part of the reform package closest to the hearts of southern member states, who otherwise are supporters of CAP reform.

"I am very critical of the income aids option," Mr MacGregor said yesterday. "What is absolutely critical is that it must not add to farm production. There is no sign at the moment that the scheme being put forward will bring that about."

He said his concern was that individual farmers receiving income support, supposedly not tied to production, would nonetheless expand output, taking advantage of their extra cash.

"It is essential that we have firm arrangements to guarantee against production being increased at the individual farm level," he said.

The Commission must also ensure that non-farm income was taken into account before granting any income support—a recognition of the fact that many small farmers, particularly in West Germany, also have lucrative urban employment.

On the dairy compensation payments, Mr MacGregor said that the EC budget simply could not afford the present levels of Ecu 7 per 100 kg of dairy production cut in 1989-90, and Ecu 8 per 100 kg in 1990-92.

Earlier Mr Andriessen had warned other member states against seeking to pick and choose elements in the total package of stabilisers. Both France and the Netherlands want cereal farmers to be able to switch to different crops, rather than simply cut production, which he warned might negate the effect of the production controls.

Mr MacGregor said there was growing support for the British suggestion of a set-aside scheme for cereal farmers as a complement to price cuts. West Germany was cited as one supporter, although Bonn has always seen set-asides as a form of quota scheme which would be an alternative to price cuts.

"I believe the Germans are re-thinking their position," Mr MacGregor said. Ambiguous West German briefing in the corridors of the meeting suggested that such a conclusion might well be true.

Forest storm damage surveyed

BY BRIDGET BLOOM

AN EMERGENCY action group to assess the impact of last weekend's storm damage on both English forest owners and the timber market has been formed by the Forestry Commission, the Timber Growers' Organisation and the British Timber Merchants' Association.

Mr David Foot, an executive member of the Forestry Commission who is in charge of the emergency operation, described the aftermath of Thursday night's hurricane-strength winds as "an environmental tragedy" for south-east England.

As a first step, the Commission had already started aerial reconnaissance of the worse affected areas. These were south of the River Thames in Kent, Surrey, Sussex and Hampshire, although parts of Suffolk were also badly affected by the freak 100mph winds.

Mr Foot said that while it would "clearly take years to restore and rehabilitate the affected woodlands," the top priority now was to find out how much timber was lying on the ground and to establish an effective marketing strategy.

None of the main British timber organisations was ready last night officially to estimate the extent of the devastation.

Unofficial estimates suggest that timber on the ground as a result of the storm could be anything between 1m and 3m cubic metres. That would be between about a fifth and three-fifths of Britain's annual consumption of domestically-produced timber, which was some 5.6m cubic metres last year.

Neither is it yet clear whether the majority of the timber felled by the wind is hardwood, like oak and beech, or softwood, like pine and larch. The former is the smaller market (just over 1m cu metres last year, used principally in joinery, some construction and furniture).

It is unlikely that the overall timber market in the UK will be seriously affected by the crisis in the south-east, if only because Britain imports more than 85 per cent of its timber and timber product requirements, currently worth some £4.5bn a year.

However, there could be a disproportionate effect in certain sectors of the market. Yesterday the British Timber Merchants' Association suggested that a glut in hardwoods would be most felt at the lower end of the market — in pit props for the coal mining industry for example — as well as in beech for furniture, already in oversupply.

The problem at the top end of the market could be the difficulty of evacuating single trees from areas of great devastation even though they would be much in demand for high quality furniture, construction or for export of veneers.

Yesterday, the Forestry Commission was at pains to tell forest owners not to be panicked either into selling too quickly, or into sawing up fallen trees which could be better marketed as single lengths.

A Commission official noted that in the winter, clearing was easier and there was less danger of deterioration through insects or fungal disease than when temperatures were higher. However, he also recalled that when gales had hit central Scotland in 1968 the 1.5m cu metres of fallen timber had taken some 18 months to clear.

Manila launches more futures

BY RICHARD GOURLAY IN MANILA

THE PHILIPPINE Securities and Exchange Commission on Monday approved in principle the listing of coffee, copra and coconut oil on the Manila International Futures Exchange, Mr Uldefin McInnes, the market chairman, said yesterday.

The three new contracts will start trading in early November once "minor details" have been ironed out with the SEC, he said. They will join sugar and soya bean futures contracts which were launched with the exchange a year ago.

The coffee contract will be for 2.5 tonnes while the copra and coconut oil contracts will be for 20 tonnes. Trading will be in monthly positions up to six months ahead.

The Philippines accounts for about 70 per cent of the world's coconut product exports and Manila will be the only futures exchange trading copra and coconut oil contracts apart from Los Angeles, where the contract never took off, Mr McInnes said. "If it can't work here it can't work anywhere," he added.

There are, however, "large educational problems" involved in introducing the concept of futures contracts to the coconut industry's producers, millers and traders, Mr McInnes admitted. Because there is excess crushing capacity in the Philippines millers initially thought the futures market would be an additional source of physical material.

In its first year MIFE traded a daily average of $6.7m daily in the sugar and soya bean contracts, which Mr McInnes described as "quite creditable for a new market in a new place." Most trading has been speculative in nature but exchange officials hope that with the introduction of the new contracts there will be more professional hedgers.

Meanwhile the Mife Board suspended one of its members, Futurelink Futures Inc for failing to meet a margin call on Monday.

Australian wheat earnings plunge A$1bn

BY CHRIS SHERWELL IN SYDNEY

THE AUSTRALIAN Wheat Board, which markets the country's wheat abroad, this week blamed US and EC export subsidies for a plunge of about one-third in Australia's wheat export earnings.

The Board said 15.6m tonnes of wheat were shipped to 47 countries in the year to September, only 400,000 tonnes short of the 16m tonne record achieved in the previous year, but earnings were down A$1bn to A$2bn ($860m) "because of depressed world prices caused by the US/EC export subsidies."

Mr Ron Paice, the Board's general manager, said it would probably be some time before similar sales volumes were achieved again.

"We have virtually no carry-over stocks and the effect of depressed prices has forced wheat farmers to reduce plantings to the lowest level of the last 10 years," he said.

The largest tonnages in 1986-87 went to China (3.72m tonnes), Iran (2.21m tonnes) and Egypt (2.17m tonnes). The Soviet Union, Iraq and Japan were also major customers, although Soviet purchases were down because of a shortage of higher protein wheat.

The Board's role in wheat marketing has come in for criticism recently through reports from the Industries Assistance Commission (IAC) and a Royal Commission into grain storage, handling and transport.

Earlier this month the IAC said in a draft report that there should be greater opportunity for private traders to participate in exports and increased competition in the domestic market.

Significantly, it said the decline in world wheat prices since 1981 was principally the result of lower real production costs, achieved through yield increases which were the result of technological improvements and favourable climatic conditions.

On the trade distorting policies of other governments, the commission said negotiations for reform were unlikely to be repaid. It suggested that a range of domestic actions in the meantime could improve the Australian industry's competitiveness.

Last month the Royal Commission on grain storage, handling and transport, in a paper giving its preliminary findings, said deregulation in these three areas offered a real prospect of considerable efficiency gains.

It rejected the ideas of trying to administer the existing institutional arrangements more effectively and of removing some of the restrictions on handling and transport agencies.

LONDON MARKETS

LONDON RAW sugar futures prices fell sharply yesterday in line with the trend in New York, where investors seemed almost as anxious to get out of sugar futures as out of equities. Dealers noted that large speculative long positions had been built up in London on the way to recent 7-month highs. Many of these were liquidated yesterday. Dollar strength against sterling was also a factor in the sugar market, which is denominated in dollars. The currency factor worked in the other direction, however, in the sterling-denominated London cocoa futures market. A firm tone in the New York market also influenced the market as March cocoa futures climbed £22 to close at £1,198.50 a tonne. The New York market also provided a lead for London coffee futures, which eased a little on the day. Dealers said the New York selling was attributed to attempts to fill a chart gap left by the sharp price rise which followed the reintroduction of International Coffee Organisation export quotas. The dollar's strength had encouraged a rise early in the afternoon, but the gains were pared when the pound began to recover.

LME price supplied by Amalgamated Metal Trading.

ALUMINIUM

99.7% purity	Unofficial close (p.m.) $ per tonne	+ or −	High/Low
Cash	1876-96	−225	—
3 months	1755-65	−165	1780/1760

Official closing (am): Cash 1850-70 (2130-40) three months 1730-50 (1970-80) settlement 1870 (2140). Final Kerb close: ——. Ring turnover: 400 tonnes.

99.5% purity	£ per tonne		
Cash	1148-50	−107	—
3 months	1049-60	−87.25	1060/1010

Official closing (am): Cash 1100-02 (1271-2) three months 1015-20 (1151-2) settlement 1102 (1272). Final Kerb close: 1040-2. Ring turnover: 79,750 tonnes.

COPPER

Grade A	Unofficial close £ per tonne	+ or −	High/Low
Cash	1112-6	−108	1060/1050
3 months	1055-8	−119	1095/1020

Official closing (am): Cash 1050-60 (1229.5-9.5) three months 1023-5 (1187-8) settlement 1060 (1229.5). Final Kerb Close: 1040-1.

Standard			
Cash	1095-100	−109.5	—
3 months	1048-58	−107.5	—

Official closing (am): Cash 1030-40 (1210-1) three months 1015-20 (1178-82) settlement 1040 (1211). US Producer prices 92-97 cents per lb. Total ring turnover 139,275 tonnes.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	370-2	+7.5	354/-
3 Months	365.5-4.5	+7.75	367/348

Official closing (am): Cash 354-4.5 (364-5) three months 351-1.5 (358-8.5) settlement 354.5 (365). Final Kerb close: 362.3. Ring turnover 13,550 tonnes. US Spot: 42 cents per lb.

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	3550-5	+15	3900/3550
3 months	3490-500	−17.5	3900/3450

Official closing (am): Cash 3900-10 (3545-50) three months 3500-600 (3520-5) settlement 3910 (3550). Final Kerb close: 3520-40. Ring turnover 7,398 tonnes.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	475-7	+12	—
3 months	477-8	+11	490/456

Official closing (am): Cash 451-2 (465-6) three months 458-6.5 (498.8) settlement 452 (465). Final Kerb close 474-5. Ring turnover: 23,850 tonnes. US Prime Western: 43-43.75 cents per lb.

LONDON METAL EXCHANGE TRADED OPTIONS

	Strike Price $/tonne	Calls Nov.		Puts Nov.	
Aluminium 99.7%	—	—		—	
		Nov.	Jan.	Nov.	Jan.
Aluminium 99.5%	1,700	—	—	—	80½
	1,850	38	—	—	—
	—	—	—	—	—
Copper (Grade A)	1,700	—	—	—	66½
	1,800	—	—	32	—
	—	32	—	—	—
	$/tonne				
Copper (Grade A)	1,050	—	—	—	32
	1,100	13	—	—	—
	—	—	—	—	—

TIN

KUALA LUMPUR TIN MARKET: Close 17.23 (17.19) ringgit per kg. Up 0.04 ringgit per kg.

GOLD

GOLD BULLION (fine ounce)	Oct. 20	
Close	$465-467	(£281-282½)
Opening	$476½-478½	(£286½-288)
M'n'g fix	$481.50	(£288.297)
Aft'n'n fix	$484.50	(£290.713)
Day's high	$481¼-482½	—
Day's low	$455-457	—

GOLD AND PLATINUM COINS

Am Eagle	$478-483	(£288¼-291¼)
Mapleleaf	$478-484	(£288½-292½)
Kr'g'r'nd	$465-467	(£281-282¼)
½ Krug	$254¼-256¼	(£153¼-154¼)
¼ Krug	$130½-131½	(£78¾-79½)
Angel	$497-500	(£300¼-302)
1/10 Angel	$50-55	(£30¼-33¼)
New Sov.	$109-110	(£65¼-66¼)
Old Sov.	$109-111	(£65¾-67)
Britannia	$478-483	(£288¼-291¼)
Noble Plat.	$606-618	(£367¼-373½)

JUTE

JUTE—October/November, c and f Dundee: BTC $570; BWC $560; BTD $495; BWD $495. C and f Antwerp: BTC $540; BWC $530; BWD $475; BTD $485.

INDICES

REUTERS

Oct. 19	Oct. 16	M'th ago	Year ago
1679.9	1679.5	—	—

(Base December 31 1931=100)

DOW JONES

Dow Jones	Oct. 16	Oct. 14	M'th ago	Year ago
Spot	128.14	127.52	—	121.67
Fut	133.88	133.40	—	121.35

(Base December 31 1931=100)

MAIN PRICE CHANGES

	Oct. 20 1987	+ or −	Month ago
METALS			
Aluminium			
Free Market	$1860/870	−275	$1785/785
Copper			
Cash Grade A	£1113.5	−102	£1128.75
3 months	£1058.5	−119	£1102.5
Gold Troy oz	$466	−15.5	$461.25
Lead Cash	£371	+7.5	£390.5
3 months	£364	+7.75	£375.5
Nickel			
Free Mkt	265/285c	−5	244/264c
Palladium oz	$135.00	−5.75	$137.25
Platinum oz	$569.00	−30.00	$588.75
Quicksilver†	$295/305		$310/325
Silver troy oz	468.85p	−24.5	461.20p
3 months	480.40p	−25.2	472.70p
Tin			
free Mkt	£4140/170	+8.5	£4158/160
Tungsten	$61.15		$65.47
Wolfram 22.8lb	$38/50		$38/60
Zinc	£476	+13.5	£447.5
3 months	£477.5	+11.0	£452.75
producers	$825		$860
OILS			
Coconut (Phil)	$515v		$470
Palm Malayan	$350z	−17.5	$355
Seeds			
Copra (Phil)	$325		$315
Soyabean (U.S.)	$161		$159
GRAINS			
Barley Fut. Jan.	£106.80	−0.65	£108.10
Maize	£133.50		£150.00
Wheat Fut. Jan.	£111.40	−0.80	£105.35
No. 2 Hard Wint.	‡		‡
OTHERS			
Cocoa Ft. Mar.	£1198.5	+22.0	£1224.5
Coffee Ft. Jan	£1339.5	−5.5	£1331.5
Cotton A Ind.*	73.85c	−1.80	83.90c
Gas Oil Dec.	£167.0	−4.5	£155
Rubber (kilo)	65.5p	−0.5	70p
Sugar (raw)	$177.8w	−0.2	£164.2
Woolltops 64s	580p kilo		480p kilo

‡ Unquoted. † Per 75-lb flask. c Cents a pound. * Cotton outlook. w Oct-Nov. y Nov. z Dec. t Nov-Dec. v Jan-Feb.

SILVER

Silver was fixed 24.85p an ounce lower for spot delivery in the London bullion market yesterday at 468.85p. US cent equivalents of the fixing levels were: spot 783.5c, down 47.3c; three-month 800.3c, down 48.95c; six-month 817.75c, down 51.05c; and 12-month 851.55c, down 59.5c. The metal opened at 465-475p (775-790c) and closed at 450-460p (745-755c).

SILVER per troy oz	Bullion Fixing price	+ or −	L.M.E. p.m. Unoffic'l	+ or −
Spot	468.85p	−24.5	759c	−61
3 months	480.40p	−25.2	766c	−66
6 months	493.10p	−25.4	—	—
12 months	515.90p	−28.7	—	—

Final kerb close 756-60c.

LME—Turnover: 0 (0) lots of 10,000 ounces.

COFFEE

London robusta traded in a very mixed fashion, eventually closing some unchanged to £5 down, reports Drexel Burnham Lambert. After initially moving lower with trade selling, the market found good support at lower levels with European demand for nearby robusta. With the dollar steadying over the lunch period the market was boosted by short covering, which was eventually absorbed. Levels eased in the afternoon against a weak New York performance.

COFFEE	Yesterday close	+ or −	Business done
Nov	1310-1312	−9.0	1323-1298
Jan	1339-1340	−5.5	1353-1328
Mar	1362-1365	−4.0	1373-1352
May	1386-1388	−6.0	1396-1375
July	1403-1410	−3.0	1414-1393
Sept	1420-1450	−2.5	1435-1415
Nov	1440-1450	—	—

Sales: 3516 (3221) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for October 19 Comp. daily 1979 111.81 (112.41); 15-day average 110.43 (109.80).

COCOA

Futures moved ahead in active trading to close at the highs of the day 22 above the previous evening. Light scale down consumer interest was again the only item of interest in the physical market with an apparent lack of producer or second-hand business at current levels, reports Gill and Duffus.

COCOA	Yesterday's close £ per tonne	+ or −	Business done
Dec	1165-1166	+25.0	1167-1145
March	1198-1199	+22.0	1200-1177
May	1219-1220	+22.0	1221-1199
July	1238-1239	+20.0	1240-1222
Sept	1257-1258	+18.0	1260-1240
Dec	1276-1277	+13.0	1282-1255
March	1299-1300	+10.0	1301-1298

Sales: 4073 (3559) lots of 10 tonnes.

ICCO indicator prices (SDRs per tonne). Daily price for October 19 1452.37 (1457.20); 10-day average for October 20 1476.37 (1481.33).

FREIGHT FUTURES

Dry Cargo	Close	High/Low	Prev.
Oct.	1192	1192/1165	1112
Jan.	1243	1245/1198	1226
Apr.	1275	1275/1245	1265.5
July	1163	1163/1140	1160
Oct.	1220	1220/1200	1245
Jan.	1340	—	1337.5
April	1300	—	1300
BFI.	1150	—	1150
	1105	—	1097.5

Turnover: 1549 (298).

GRAINS

LONDON GRAINS—Wheat: US dark northern spring No 2 14 per cent Nov 93.25. US No 2 soft red winter Nov 97.75. French 11½-12 per cent Oct 136.00 sellers. English feed fob Nov 110.50 paid, Dec 112.00, Jan/Mar 115.00, Apr/Jun 117.50 sellers. Maize: US No 3 yellow/French transhipment East coast second half Oct 133.50 seller. Barley: English feed Nov 108.50, Dec 109.50, Jan/Mar 112.50 sellers. Rest unquoted.

Mnth	WHEAT Yest'dy's close	+ or −	BARLEY Yest'dy's close	+ or −
Nov.	108.90	−0.85	102.90	−0.85
Jan.	111.40	−0.80	105.80	−0.55
Mar.	113.30	−0.50	107.85	−0.85
May	115.45	−0.55	109.35	−0.85
July	117.65	−0.65	—	—
Sept	103.10	−0.35	99.25	—
Nov.	104.50	—	101.75	—

Business done — Wheat: Nov 109.15-8.30, Jan 111.40-0.70, Mar 113.20-2.70, May 115.30-5.10, July 117.50-7.45, Sept 103.00 only, Nov 104.50 only. Sales: 570 lots of 100 tonnes. Barley: Nov 103.00-2.85, Jan 105.85-5.35, Mar 107.85-7.45, May 109.15 only. Sales: 287 lots of 100 tonnes.

Old crop markets seemed to reflect desperation in stock market trading reaching a staggering £1.45 down in spot Nov wheat trade before recovering on keen trade buying, with barley reacting likewise on shipper support having experienced early fringe shipper selling, reports T. G. Roddick.

HGCA — Locational ex-farm spot prices: Feed Barley: S. East 102.30; S. West 101.60; W. Mids 100.70; N. West 100.70. The UK monetary coefficient for the week beginning Monday October 26 (based on HGCA calculations using 5 days exchange rates) is expected to remain unchanged.

OIL

	Latest	Change + or −
CRUDE OIL—FOB ($ per barrel)		Nov.
Arab Light	—	—
Arab Heavy	—	—
Dubai	17.05-17.15	−0.15
Brent Blend	18.75-18.85	−0.40
W.T.I. (1pm edt)	19.75-19.85	−0.46
Forcados (Nigeria)	—	—
Urals (cif NWE)	—	—
PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	184-187	−2
Gas Oil	156-158	−3
Heavy fuel Oil	102-105	−3
Naphtha	160-162	−4

Petroleum Argus estimates

SUGAR

LONDON DAILY PRICE—Raw sugar $177.80 (£105.80), down $0.20 (up £1.00) a tonne for November/December delivery. White sugar $191.00 down $1.00.

	Yesterd's close	Previous close	Business done
	$ per tonne		
No. 6 Raws			
Dec	152.4-158.4	159.4-159.8	157.2-151.8
Mar	162.6-163.0	168.4-169.8	168.6-168.0
May	164.4-165.4	171.8-172.8	173.4-160.8
Aug	167.8	174.0-174.7	173.0-166.0
Oct	170.2	175.8-177.0	176.0-168.2
Dec	171.8-172.6	178.8-180.2	—
Mar	178.6-180.0	184.8-186.8	—
No. 5 Whites			
Dec	186.0-188.0	191.6-193.8	191.5-186.8
Mar	193.1-195.0	198.8-201.0	192.5
May	197.0-194.5	205.0-205.0	205.0
Aug	201.0-207.0	217.5-211.5	208.0-211.1
Oct	214.0-216.0	210.0-213.0	—
Dec	206.8-209.0	216.0	—
Mar	212.0-215.0	220.0	—

Sales No 6 6212 (3624) lots of 50 tonnes: No 5 1590 (943).

Tate and Lyle delivery price for granulated basis sugar was £212.50 (£211.00) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for October 19: Daily price 6.72 (6.71); 15-day average 6.40 (6.35).

PARIS—Whites (FFr per tonne): Dec 1120/1123; Mar 1162/1169; May 1187/1195; Aug 1217/1230; Oct 1240/1250; Dec 1256/1272.

RUBBER

PHYSICALS — Closing prices (buyers): Spot 65.50p (66.00p); Nov 67.75p (68.25p); Dec 68.00p (68.50p). The Kuala Lumpur fob prices (Malay/Singapore cents per kg) were: RSS No 1 266.5 (270.0): SMR 20 255 (257).

MEAT

MEAT COMMISSION—Average fatstock prices at representative markets: GB—Cattle 93.30p per kg lw (−0.45); GB—Sheep 168.71p per kg est dcw (−5.13); GB—Pigs 73.87p per kg lw (−2.14).

US MARKETS

NEW YORK

ALUMINIUM 40,000 lbs cents/lbs

	Latest	Prev	High	Low
Oct	755.0	820.0	—	—
Nov	755.0	820.0	—	—
Dec	756.0	820.0	770.0	760.0
Jan	750.0	811.0	—	—
Feb	0	0	—	—
March	740.0	775.0	—	—
April	0	0	—	—
May	732.5	732.5	—	—
July	725.0	705.0	—	—
Sept	725.0	705.0	—	—

COCOA 10 tonnes; $/tonnes

	Close	Prev	High	Low
Dec	182.5	180.8	182.7	179.0
March	185.2	183.8	185.6	182.3
May	188.1	186.7	187.4	185.4
July	191.0	189.6	190.4	189.0
Sept	193.9	192.7	152.5	152.0
Dec	197.2	195.8	195.0	194.8
March	200.0	198.6	—	—

COFFEE "C" 37,500 lbs, cents/lbs

	Close	Prev	High	Low
Dec	119.98	122.73	121.60	118.85
Mar	124.25	126.45	125.70	124.25
May	125.90	128.63	127.35	125.30
July	127.50	129.25	128.50	126.50
Sep	127.88	130.65	129.70	127.00
Dec	129.13	131.75	130.50	130.00
Mar	129.88	132.45	131.50	131.50

COPPER 25,000 lbs; cents/lbs

	Close	Prev	High	Low
Oct	75.20	86.15	—	—
Nov	75.10	85.05	—	—
Dec	74.60	84.55	76.90	73.40
Jan	74.10	83.50	—	—
March	73.10	82.65	77.10	71.50
May	72.80	81.65	76.65	71.80
July	72.50	79.90	—	—
Sept	72.50	80.20	74.00	72.00
Dec	72.50	80.00	76.00	72.00
Jan	72.50	79.90	—	—
March	72.50	79.80	73.20	72.00
May	72.50	79.70	—	—

COTTON 50,000 lbs; cents/lbs

	Latest	Prev	High	Low
Dec	65.70	66.19	65.85	64.19
Mar	67.15	67.76	67.20	65.75
May	67.50	68.35	67.80	66.35
July	67.50	63.37	67.75	66.37
Oct	63.10	64.17	63.10	62.30
Dec	62.60	62.52	62.60	60.50
Mar	—	64.27	63.00	63.00

CRUDE OIL (LIGHT) 42,000 US gallons; $/barrels

	Latest	Prev	High	Low
Nov	19.75	19.80	20.02	19.58
Dec	19.75	19.91	20.13	19.50
Jan	19.71	19.87	20.10	19.50
Feb	19.68	19.81	20.00	19.56
March	19.67	19.76	20.00	19.55
April	19.63	19.71	19.88	19.53
May	19.57	19.66	19.75	19.58
June	19.49	19.62	19.70	19.45
July	19.60	19.58	19.70	19.40
Aug	19.56	19.54	19.70	19.60

GOLD 100 troy oz; $/troy oz

	Close	Prev	High	Low
Oct	463.2	481.7	470.0	446.4
Nov	463.9	483.2	—	—
Dec	467.5	488.8	479.0	450.0
Feb	473.7	494.5	488.4	464.0
Apr	480.1	502.4	495.0	475.0
Jun	486.5	510.3	501.0	483.0
Aug	493.1	518.3	500.0	489.0
Sep	480.0	480.1	481.0	481.0
Oct	499.9	526.5	518.5	494.0
Dec	506.7	534.7	520.0	500.0
Feb	513.7	543.1	527.0	515.0
May	—	—	—	—
Jun	528.5	560.7	—	—
Aug	535.9	569.5	555.0	548.0

HEATING OIL 42,000 US gallons; cents/US gallons

	Latest	Prev	High	Low
Nov	55.90	56.85	57.30	55.00
Dec	56.20	58.92	57.58	55.30
Jan	56.10	57.11	57.55	55.20
Feb	55.85	56.76	57.20	55.30
Mar	54.00	54.45	55.15	53.50
Apr	52.35	52.55	52.75	52.30
May	—	51.15	52.00	50.70
Jun	—	50.55	50.70	50.00
Jul	—	50.75	—	—
Aug	—	51.25	—	—

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Prev	High	Low
Nov	140.50	145.50	144.35	139.50
Jan	140.55	143.70	141.75	138.70
Mar	140.50	143.20	141.80	138.20
May	140.80	143.65	141.25	138.65
Jul	140.75	143.50	141.05	140.75
Sep	—	137.15	—	—
Nov	138.50	141.50	138.50	138.50
Jan	138.50	140.95	—	—
Mar	136.50	140.95	139.50	139.50

PLATINUM 50 troy oz, $/troy oz

	Close	Prev	High	Low
Oct	571.5	596.9	581.0	564.0
Nov	—	—	—	—
Dec	579.2	604.2	—	—
Jan	581.4	606.4	—	—
Feb	—	—	—	—
April	592.4	617.4	—	—
July	603.4	628.4	—	—
Oct	614.4	639.4	614.4	614.4
Jan	625.4	650.4	—	—

SILVER 5,000 troy ozs. cents/troy ozs

	Close	Prev	High	Low
Oct	721.0	819.2	732.0	715.3
Nov	723.7	822.7	—	—
Dec	728.5	828.0	760.0	—
Jan	733.4	834.4	744.0	744.0
March	744.5	848.5	777.0	—
April	—	—	—	—
May	755.5	863.4	—	780.0
July	765.5	878.2	810.0	780.0
Sept	775.5	892.9	820.0	780.0
Dec	793.5	914.0	835.0	790.0
Jan	799.9	921.9	—	—
March	813.5	875.0	845.0	830.0
May	826.0	893.4	860.0	860.0
July	839.0	901.5	900.0	890.0

SUGAR WORLD "11" 112,000 lbs. cents/lbs

	Close	Prev	High	Low
Jan	6.59	7.12	6.70	6.51
March	7.25	7.55	7.33	7.11
May	7.38	7.66	7.48	7.23
July	7.47	7.78	7.61	7.36
Oct	7.59	7.92	7.68	7.50
Jan	7.83	8.12	—	—
March	8.10	8.40	8.10	8.00

CHICAGO

LIVE CATTLE 40,000 lbs; Cents/lbs

	Latest	Prev	High	Low
Oct	67.72	67.92	68.30	67.30
Dec	65.57	65.92	66.75	65.42
Feb	63.30	64.60	64.70	63.30
Apr	64.80	65.12	65.90	64.62
Jun	64.47	65.72	65.50	64.22
Aug	63.27	64.30	64.25	62.80
Oct	62.00	62.80	63.00	61.30

LIVE HOGS 30,000 lbs; Cents/lbs

	Close	Prev	High	Low
Oct	48.50	48.40	49.00	47.40
Dec	44.55	44.85	44.85	43.35
Feb	42.55	43.17	43.22	41.67
April	39.97	40.77	40.70	39.27
June	42.50	43.30	43.30	41.80
July	42.70	43.90	43.80	42.40
Aug	42.30	43.00	42.75	41.70
Oct	38.85	40.10	40.10	38.90
Dec	39.15	40.25	40.20	38.75

MAIZE 5,000 bu min; cents/56 lb bushel

	Close	Prev	High	Low
Dec	184.2	179.4	185.0	179.0
March	191.4	186.2	192.0	186.2
May	197.4	194.0	198.4	193.2
July	201.0	197.2	202.0	197.2
Sept	195.4	194.2	197.0	194.2
Dec	192.0	192.4	194.4	190.4
March	199.0	199.0	200.0	199.0

PORK BELLIES 38,000 lbs; cents/lb

	Close	Prev	High	Low
Feb	55.52	55.65	56.90	53.80
Mar	55.12	54.92	55.45	53.25
May	56.17	56.20	56.58	54.40
Jul	56.20	56.25	56.75	54.90

SOYABEANS 5,000 bu min; cents/60lb-bushel

	Close	Prev	High	Low
Nov	535.0	523.4	537.4	520.4
Jan	543.0	535.0	547.0	529.4
March	551.4	544.0	554.0	536.0
May	559.0	550.4	561.0	541.4
July	561.0	553.0	565.0	545.0
Aug	559.0	549.0	562.0	546.0
Sept	554.0	553.0	555.0	541.0
Nov	554.4	552.0	555.0	540.0

SOYABEAN MEAL 100 tons; $/ton

	Close	Prev	High	Low
Oct	183.8	179.0	184.2	177.0
Dec	177.2	169.2	178.2	170.0
Jan	173.6	165.7	174.0	167.5
Mar	171.5	165.5	172.0	166.0
May	169.7	165.5	170.0	165.0
Jul	168.0	163.5	169.5	164.5
Aug	167.0	164.0	167.0	164.0
Sep	164.0	161.5	165.0	163.0
Oct	163.0	161.5	163.0	163.1
Dec	164.0	161.5	164.0	163.0

SOYABEAN OIL 60,000 lbs; cents/lbs

	Close	Prev	High	Low
Oct	17.17	17.70	17.70	16.90
Dec	17.40	17.82	17.89	17.10
Jan	17.59	18.07	18.19	17.43
March	17.91	18.40	18.45	17.73
May	18.17	18.72	18.70	18.05
July	18.38	18.90	18.90	18.30
Aug	18.37	18.95	18.70	18.35
Sep	18.40	18.95	19.05	18.35
Oct	18.35	18.65	18.80	18.35
Dec	18.50	19.15	18.85	18.50

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Prev	High	Low
Dec	296.6	295.0	300.4	290.0
Mar	307.2	306.4	311.0	301.0
May	290.4	303.0	309.0	289.0
Jul	290.4	289.0	295.4	284.0
Sept	293.0	291.0	295.0	289.0
Dec	302.0	305.0	304.0	297.0

SPOT PRICES: Chicago loose lard 14.000 (same) cents per pound. New York tin 319.00-321.000 (320.00-321.00) cents per pound.

POTATOES

Market twice tested £159.00 level, basis April position, but again found keen selling interest here. Confidence eventually eroded with values drifting back down to unchanged by close, reports Coley and Harper.

Month	Yesterday's close £ per tonne	Previous close	Business done
Nov.	91.50	93.00	92.00-91.50
Feb.	104.0	107.50	104.00
March	96.0	92.50	93.00
Apr.	157.0	157.10	159.00-155.50
May	169.80	170.00	171.00
Nov	75.0	80.00	—

Sales: 706 (—) lots of 40 tonnes.

SOYABEAN MEAL

A very mixed session with violent price movements. Early commercial selling forced prices lower before firm cash markets later in the day caused values to bounce back to around unchanged, reports Muirpace.

	Yesterd'ys close £ per tonne	+ or −	Business done
October	—	—	—
Dec.	130.0-131.0	+0.10	130.0-127.5
Feb.	132.0-133.0	+0.50	130.5-128.5
April	132.0-133.0	—	131.0
June	128.5-129.0	+0.75	—
August	125.5-127.0	+0.75	—
October	126.0-128.0	+0.50	—

Sales: 201 (128) lots of 20 tonnes.

GAS OIL FUTURES

Month	Yesterd'ys close US$ per tonne	+ or −	Business done
Nov.	166.75	−4.25	
Dec.	167.00	−4.50	169.50-64.75
Jan	168.25	−4.00	178.25-69.50
Feb.	169.00	−3.55	171.00-67.75
Mar	—	—	169.00-69.00
Apr	164.00	—	164.00-54.00

Turnover: 8,240 (10,002) lots of 100 tonnes.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar stages sharp recovery

The dollar rose sharply yesterday in chaotic trading conditions, recovering all the ground lost earlier this week and moving up to levels prevailing before the sudden fall in equities.

The turnaround in sentiment started after a statement by Mr Gerhard Stoltenberg, West German Finance Minister, which claimed that the recent collapse had been overdone. The dollar was bought aggressively and demand increased after a statement by Mr Alan Greenspan, chairman of the US Federal Reserve Board, in which he announced plans to provide liquidity in order to support the economy and financial system.

This was taken as green light to lower interest rates in order to offset the recessive effects of the latest crash in equity prices and also served to dispell fears that some institutions would experience financial difficulties because of the sharp fall in equities. Several US banks immediately cut prime rates to 9¼ per cent having only last week raised them to 9¾ per cent.

Trading had been affected by uncertainty about the Louvre accord after Mr James Baker, US Treasury Secretary, had openly criticised the increase in West German interest rates. However the dollar started the day on a stronger note after it became known that Mr Baker had met Mr Gerhard Stoltenberg, but the improvement tailed off because dealers were afraid that the dollar's trading limits may have been lowered.

The dollar's firmer trend resumed however after Mr Stoltenberg reaffirmed West Germany's determination to uphold the Louvre accord. At the same time the Bundesbank arranged fresh liquidity for the money market at a fixed and slightly lower rate of 3.80 per cent.

A strong surge in US bond prices also fed through to the US unit, catching many people by surprise as investors moved funds into the safe haven of Government paper.

The dollar closed at DM1.8080 up from DM1.7770 on Monday and touched a high of DM1.8200. Against the yen it rose to Y143.90 from Y141.70 after a high of Y144.40. Elsewhere it improved to SFr1.5005 from SFr1.4760 and FFr6.0375 compared with FFr5.9375.

On Bank of England figures, the dollar's exchange rate index rose from 99.1 to 100.8.

STERLING—Trading range against the dollar in 1987 is 1.6885 to 1.4710. September average $1.6456. Exchange rate index 73.4 against 73.7 at the opening and 73.8 last night. The six months ago figure was 72.4.

Sterling finished a little weaker mainly because of the dollar's stronger performance. A £4.4bn rise in UK bank lending was much worse than expected and sterling was sold initially. However a closer look at the figures showed that with the effects of intervention and a few more exceptional items stripped out, the underlying rise was conderably less and sterling moved above its lows.

Against the dollar it fell to $1.6550 from $1.6805 but improved against the D-mark to DM2.9925 from DM2.9850 and Y238.25 compared with Y238.0. Elsewhere it finished at SFr2.4825 from SFr2.48 and FFr9.9925 against FFr9.9775.

D-MARK—Trading range against the dollar in 1987 is 1.9305 to 1.7690. September average 1.8122. Exchange rate index 147.0 against 146.4 six months ago.

There was no intervention by the Bundesbank at yesterday's fixing in Frankfurt when the dollar was quoted at DM1.7918 up from DM1.7740 on Monday.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Oct. 20	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.2093	+1.77	+1.01	± 1.5344
Danish Krone	7.85212	7.97933	+1.62	+0.86	± 1.6404
German D-Mark	2.05853	2.07608	+0.85	+0.09	± 1.0981
French Franc	6.90403	6.99416	+0.44	−0.32	± 1.3674
Dutch Guilder	2.31943	2.33526	+0.60	−0.16	± 1.5012
Irish Punt	0.768411	0.775157	+0.88	+0.12	± 1.6684
Italian Lira	1,483.58	1498.26	+0.99	+0.68	± 4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Oct. 20	Latest	Previous Close
£ Spot	1.6860-1.6870	1.6850-1.6860
1 month	0.26-0.24pm	0.26-0.24pm
3 months	0.42-0.38pm	0.41-0.39pm
12 months	1.30-1.20pm	1.30-1.25pm

Forward premiums and discounts apply to the U.S. dollar.

POUND SPOT—FORWARD AGAINST THE POUND

Oct. 20	Day's spread	Close	One month	p.a.	Three months	% p.a.
US	1.6460-1.6755	1.6545-1.6555	0.28-0.25c pm	1.92	0.66-0.61pm	1.53
Canada	2.1752-2.1831	2.1810-2.1820	0.14-0.04c pm	0.49	0.33-0.21pm	0.49
Netherlands	3.36-3.37¼	3.36-3.37	1½-1¼c pm	4.90	3¾-3⅝pm	4.31
Belgium	62.20-62.61	62.25-62.35	21-15cpm	3.47	58-47pm	3.37
Denmark	11.47½-11.56¼	11.51-11.52	¼-1ore dis	−0.65	½-1⅛dis	−0.33
Ireland	1.1125-1.1225	1.1145-1.1155	0.13-0.06ppm	1.02	0.29-0.13pm	0.75
W. Germany	2.98¼-2.99¼	2.98¼-2.99¼	1⅝-1⅜pf pm	6.02	4-3¼pm	5.18
Portugal	233.62-237.28	234.00-234.90	45-100c dis	−3.71	173-265dis	−3.74
Spain	194.37-198.25	194.40-194.70	20pm-6c dis	0.74	11-81dis	−0.95
Italy	2156¼-2168¼	2159½-2160½	1-5lire dis	−1.67	10-15dis	−2.31
Norway	10.93¼-11.02¼	10.96¼-10.97¼	3⅝-4⅝ore dis	−4.24	10-10⅞dis	−3.80
France	9.97¼-10.02¼	9.98¼-9.99¼	1⅝-1⅛cpm	1.65	3⅝-2⅛pm	1.08
Sweden	10.51¼-10.60¼	10.53¼-10.54¼	⅝-¼ore pm	0.57	1⅛-¾pm	0.40
Japan	237¼-238¼	237¼-238¼	1½-1⅛ypm	6.30	3⅝-3⅛pm	5.46
Austria	20.81-21.09	21.06-21.09	10½-9⅝gro pm	5.66	29⅝-27pm	5.33
Switzerland	2.47¼-2.48¼	2.47¼-2.48¼	1⅝-1⅜cpm	6.65	3⅝-3⅛pm	5.84

Belgian rate is for convertible francs. Financial franc 62.50-62.60. Six-month forward dollar 1.40-1.30cpm. 12-month 2.60-2.45cpm.

STERLING INDEX

		Oct. 20	Previous
8.30	am	73.7	73.8
9.00	am	73.8	73.8
10.00	am	73.7	73.7
11.00	am	73.7	73.7
Noon		73.7	73.7
1.00	pm	73.7	73.7
2.00	pm	73.6	73.8
3.00	pm	73.4	73.8
4.00	pm	73.4	73.8

CURRENCY RATES

Oct. 20	Bank rate %	Special * Drawing Rights	European Currency Unit
Sterling	—	0.778219	0.692915
U.S. Dollar	6	1.29947	1.14227
Canadian $	8.75	*	1.50780
Austrian Sch.	4	16.3795	14.5868
Belgian Franc	7½	48.7041	43.2093
Danish Krone	7	8.96344	7.97933
Deutsche Mark	3	N/A	2.07608
[illegible]	[illegible]	[illegible]	[illegible]

* CS SDR rates for Oct. 19: 1.69484

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Oct. 20	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6460-1.6755	1.6545-1.6555	0.28-0.25c pm	1.92	0.66-0.61pm	1.53
Ireland†	1.4790-1.4792	1.4805-1.4815	0.11-0.04c pm	0.60	0.17-0.05pm	0.29
Canada	1.3028-1.3205	1.3180-1.3190	0.10-0.13c dis	−1.06	0.20-0.23dis	−0.66
Netherlands	2.0110-2.0480	2.0330-2.0340	0.50-0.45c pm	2.83	1.55-1.50pm	3.03
Belgium	37.26-37.80	37.60-37.70	6.00-4.00c pm	1.61	22.00-17.00pm	2.09
Denmark	6.88¼-6.98	6.95¼-6.96	0.40-1.10ore dis	−1.31	2.65-2.35dis	−1.16
W. Germany	1.7880-1.8200	1.8075-1.8085	0.63-0.60pf pm	4.12	1.80-1.77pm	3.98
Portugal	141¼-143¼	142¼-143¼	80-80c dis	−3.49	150-200dis	−4.95
Spain	116.65-118.30	117.60-116.70	50-70c dis	−6.16	100-150dis	−4.28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.75-37.85

CURRENCY MOVEMENTS

Oct. 20	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

Oct. 20	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Oct. 20	£	$
[illegible]	[illegible]	[illegible]
Korea(Sth)	1349.55-1361.75	801.00-807.60
Kuwait	0.46190-0.46220	0.27995-0.28005
Luxembourg	62.25-62.35	37.60-37.70
Malaysia	4.1735-4.1855	2.5290-2.5340
Mexico	2678.65-2675.40	1619.00-1620.00
N. Zealand	2.5545-2.5595	1.5455-1.5480
Saudi Ar.	6.1875-6.1930	3.7500-3.7510
Singapore	3.4535-3.4650	2.0900-2.0950
S. Af. (Cm)	3.3835-3.4075	2.0480-2.0520
S. Af. (Fn)	5.5170-5.7075	3.3335-3.4485
Taiwan	49.75-50.00	29.95-30.05
U.A.E.	6.0595-6.0650	3.6725-3.6735

*Selling rate.

EXCHANGE CROSS RATES

Oct. 20	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	0.334	0.553	1.	79.62	3.339	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	4.197	6.946	12.56	1000.	41.94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	1.001	1.656	2.995	238.4	10.00	2.48	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	0.403	0.667	1.205	95.97	4.025	1.	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	0.297	0.492	0.889	70.80	2.970	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	0.463	0.766	1.385	110.3	4.626	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C $	0.458	0.759	1.372	109.2	4.581	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B Fr.	1.605	2.657	4.803	382.4	16.04	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

FINANCIAL FUTURES

Volatile trading

A DISGRUNTLED trader on the London International Financial Futures Exchange described the markets as like 19th century physicists, watching a world as neutral observers they believe they have no control over. But in reality the markets do have an economic impact, and rather than merely reacting to events may prompt their own collapse.

Gilts and bonds showed early gains on Liffe, benefiting from the crash in equity prices.

Funds were attracted into bonds as fears about rising inflation eased with the fall in share prices. The widely forecast rise in the US and Japanese discount rates was considered less likely by dealers, and a rumour the US discount rate might be cut was fuelled by news that Mr James Baker, US Treasury Secretary, and Mr Alan Greenspan, Federal Reserve Board chairman, were cutting short visits, to return to Washington.

Two major US banks which increased their prime rates last week brought them back into line with the rest of the market yesterday.

Stock index futures fell alarmingly in the early morning, reflecting the fall in cash prices on the London Stock Exchange, and the overnight collapse on Wall Street and Tokyo.

December FT-SE 100 futures touched a low of 138.00, after opening on Liffe at 175.00, compared with Monday's close of 195.85. The contract then bounced back to a high of 197.50, as equity prices in New York surged, but fininshed only slightly above the opening level.

After Liffe closed several US exchanges halted trading in stock index futures and options.

Long gilt futures shrugged off news of a doubling in September UK bank lending to £4.4bn. Forecasts were in the region of £3bn.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Dec	Calls—Last March	Puts—Last Dec	Puts—Last March
106	7.45	8.25	0.07	0.41
108	5.56	6.51	0.18	1.03
110	4.11	5.24	0.37	1.40
112	2.48	4.14	1.10	2.30
114	1.40	3.10	2.02	3.26
116	0.57	2.20	3.19	4.36
118	0.30	1.44	4.56	5.60
120	0.15	1.11	6.41	7.27

Estimated volume total, Calls 11,953 Puts 6,572
Prev. day's open int: Calls 32,250 Puts 26,123

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Dec	Calls—Last March	Puts—Last Dec	Puts—Last March
74	9.17	8.56	0.01	0.28
76	7.19	7.13	0.03	0.49
78	5.26	5.45	0.10	1.17
80	3.45	4.24	0.29	1.60
82	2.25	3.17	1.09	2.53
84	1.22	2.23	2.06	3.59
86	0.50	1.42	3.34	5.14
88	0.37	1.08	5.21	6.44

Estimated volume total, Calls 1,546 Puts 469
Previous day's open int: Calls 1,625 Puts 1,502

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Oct.	Calls—Last Nov.	Puts—Last Oct.	Puts—Last Nov.
18750	1.46	9.57	10.96	19.07
19000	1.02	8.71	13.02	20.71
19250	0.69	7.91	15.19	22.41
19500	0.46	7.18	17.46	24.18
19750	0.30	6.50	19.80	26.00
20000	0.19	5.88	22.19	27.88
20250	0.12	5.30	24.62	29.80
20500	0.07	4.78	27.07	31.78

Estimated volume total, Calls 25 Puts 2
Previous day's open int: Calls 199 Puts 221

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls—Last Nov.	Dec.	Jan.	Mar.	Puts—Last Nov.	Dec.	Jan.	Mar.
1.45	20.65	20.65	—	20.65	0.00	0.00	—	0.05
1.50	15.65	15.65	—	15.65	0.00	0.00	—	0.23
1.55	10.65	10.65	10.65	10.65	0.00	0.05	0.24	0.75
1.60	5.65	5.65	5.91	6.46	0.07	0.45	1.02	1.96
1.65	1.55	2.15	2.80	3.60	1.16	2.05	2.91	4.10
1.70	0.14	0.52	1.03	1.76	4.75	5.42	6.14	7.26
1.75	0.00	0.07	0.29	0.74	9.61	9.97	10.40	11.24
1.80	0.00	0.01	0.06	0.27	14.61	14.91	15.17	15.77

Estimated volume total, Calls 55 Puts 0
Previous day's open int. Calls 228 Puts 1,324

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last Nov.	Dec.	Jan.	Mar.	Puts—Last Nov.	Dec.	Jan.	Mar.
1.45	—	12.90	—	—	—	2.70	—	—
1.50	17.20	17.20	—	17.20	0.30	0.30	—	0.40
1.55	12.20	12.20	—	12.20	0.30	0.30	—	0.80
1.60	7.20	7.35	7.70	8.10	0.35	0.70	1.05	1.85
1.65	2.95	2.60	4.20	4.85	1.10	1.95	2.60	3.65
1.70	0.85	1.30	2.00	2.70	4.00	5.30	5.30	6.30
1.75	—	1.20	—	1.80	—	16.50	—	17.50

Previous day's open int: Calls 942 Puts 104
Estimated Volume: N/A

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls Nov.	Dec.	Jan.	Mar.	Puts Nov.	Dec.	Jan.	Mar.
1.575	7.25	7.35	7.65	7.90	0.05	0.40	0.70	1.45
1.600	4.95	5.20	5.70	6.10	0.20	0.80	1.30	2.20
1.625	2.90	—	4.05	4.60	—	—	2.05	—
1.650	1.80	2.35	2.70	3.30	2.30	12.60	3.20	4.30
1.675	0.80	1.20	1.80	2.35	3.30	14.10	4.70	5.80
1.700	0.15	0.60	1.10	1.65	5.25	5.90	6.45	7.45
1.725	0.10	0.25	0.70	1.10	7.55	8.00	8.30	9.25

Previous day's open int: Calls 78,613 Puts 56,491
Previous day's volume: Calls 7,981 Puts 5,083

LIFFE-EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls—Last Dec.	Mar.	Jun.	Sept.	Puts—Last Dec.	Mar.	Jun.	Sept.
90.00	2.00	1.88	1.73	1.66	0.00	0.08	0.18	0.31
90.25	1.76	1.66	1.93	1.47	0.01	0.11	0.23	0.37
90.50	1.52	1.45	1.33	1.29	0.02	0.15	0.28	0.44
90.75	1.28	1.24	1.15	1.12	0.03	0.19	0.35	0.52
91.00	1.05	1.05	0.98	0.96	0.05	0.25	0.43	0.61
91.25	0.84	0.87	0.82	0.81	0.09	0.32	0.52	0.71
91.50	0.64	0.71	0.67	0.68	0.14	0.41	0.62	0.83

Previous day's open int: Calls 2,166 Puts 2,177
Estimated Vol: Calls 637 Puts 552

LONDON

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Dec.	113-19	115-31	110-20	110-30
March	113-24	113-26	113-26	111-05

Estimated volume 55,393 (49,999)
Previous day's open int. 29,106 (29,254)

6% NOTIONAL LONG TERM JAPANESE GOVT BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Dec.	98.40	99.50	97.25	95.88
March	97.90	—	—	95.35

Estimated Volume 1,071 (719)
Previous day's open int. 715 (743)

THREE-MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE-MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6550	1.6524	1.6487	1.6415	1.6298

IMM—STERLING $e per £

	Latest	High	Low	Prev
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Latest	High	Low	Prev.
Dec.	80-25	80-25	80-00	77-25
Mar.	80-01	80-01	79-11	77-01
June	78-26	79-13	78-26	76-13
Sept.	78-07	78-26	78-07	75-26
Dec.	77-22	78-09	77-22	75-09
Mar.	—	—	—	74-26
June	—	—	—	74-12
Sept.	—	76-31	76-31	73-13
Dec.	76-19	76-19	76-19	73-19
Mar.	76-08	—	—	73-08
June	75-30	—	—	72-80

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

JAPANESE YEN (IMM)
Y12.5m $ per Y100

	Latest	High	Low	Prev.
Dec.	0.6985	0.7020	0.6945	0.7121
Mar.	0.7040	0.7100	0.7005	0.7200
June	0.7100	0.7100	0.7100	0.7280
Sept.	—	—	—	0.7340
Dec.	—	—	—	0.7415

DEUTSCHE MARK (IMM)
DM125,000 $ per DM

	Latest	High	Low	Prev.
Dec.	0.5563	0.5600	0.5505	0.5683
Mar.	0.5605	0.5644	0.5529	0.5744
June	0.5660	0.5660	0.5660	0.5810
Sep.	—	—	—	0.5895
Dec.	—	—	—	0.5912

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MONEY MARKETS

London rates ease

INTEREST RATES on the London money market showed more reaction to international events that the rise to £4.4bn from £2bn in UK September bank lending. Forecasts in the City were for an increase in the region of £3bn.

Money supply growth was generally regarded as satisfactory, with sterling M3 rising 0.8 per cent, compared with expectations of an unchanged 1.5 per cent. The increase of 0.8 per cent in MO from 0.3 per cent was within the range of most forecasts.

Three-month interbank fell to 10¼-10⅛ per cent from 10¾-10⅝ per cent, as the recent weakness in international equity prices appeared to reduce the likelihood of a rise in the US and Japanese discount rates.

UK clearing bank base lending rate 10 per cent since August 7

Chemical Bank and Marine Midland increased their prime rates to 9¾ per cent last week, but returned to 9¼ per cent yesterday.

The Bank of England initially forecast a money market shortage of £300m, but revised this to £200m in the afternoon, and provided total help of £185m.

Before lunch the authorities bought £98m bills outright, by way of £35m bank bills in band 3 at 9⅞ per cent, and £63m bank bills in band 4 at 9⅞ per cent.

In the afternoon another £67m bills were bought outright, through £60m bank bills in band 1 at 9⅞ per cent and £7m bank bills in band 3 at 9⅞ per cent.

Late assistance of around £20m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £217m, with Exchequer transactions absorbing £70m, and bank balances below target £25m. These outweighed a fall in the note circulation adding £35m to liquidity.

In New York the Federal Reserve added liquidity to the banking system via two-day system repurchase agreements, when Federal funds were trading at 7½ per cent, compared with an average of 7.61 per cent on Monday.

In Frankfurt call money eased to 3.65 per cent from 3.85 per cent, after the West German Bundesbank offered liquidity to the money market through a 35-day securities repurchase agreement, at a fixed rate of 3.80 per cent.

In Paris the Bank of France provided funds for the banking system via a securities repurchase tender at an unchanged rate of 7½ per cent. This replaces FFr 19.2bn draining from the system today, as an earlier agreement expires.

Dealers noted that the Bank of France added temporary liquidity on Monday at 7¾ per cent, to prevent call money rising towards 8 per cent, suggesting the authorities are prepared to allow a weakening of the franc rather than respond to higher interest rates in the US and West Germany.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct. 20) 3 months U.S. dollars		6 months U.S. dollars	
bid 8⅝	offer 8⅞	bid 8¾	offer 8⅞

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

		Treasury Bills and Bonds	
[illegible]	[illegible]	[illegible]	[illegible]

October 20	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

October 20	Overnight	7 days notice	Month	Three Months	Six Months	One Year
Interbank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	TUESDAY OCTOBER 20 1987 — US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	MONDAY OCTOBER 19 1987 — US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX — 1987 High	1987 Low	Year ago (approx)
Australia (90)	121.36	-23.6	108.90	113.11	3.54	159.10	140.36	145.98	180.81	99.92	90.36
Austria (16)	95.25	-5.5	85.32	89.53	2.37	100.84	88.97	93.13	102.87	85.53	96.21
Belgium (48)	106.13	-2.5	95.07	98.93	4.87	108.80	95.99	99.95	134.89	96.19	90.71
Canada (129)	102.00	-11.4	91.37	97.38	3.13	115.10	101.54	108.05	141.78	100.00	97.24
Denmark (38)	111.11	-6.2	99.54	105.14	2.84	118.50	104.55	110.28	124.83	98.18	99.98
France (122)	90.91	-2.0	81.44	86.10	3.26	92.79	81.86	86.42	121.82	90.91	91.77
West Germany (93)	85.88	-6.7	76.93	80.72	2.40	92.03	81.19	85.02	104.93	84.00	93.14
Hong Kong (46)	133.31	-0.1	119.42	133.64	3.64	133.50	117.78	133.64	158.68	96.89	97.71
Ireland (14)	121.92	-16.1	109.22	116.00	3.94	145.37	128.25	136.19	160.22	99.50	80.22
Italy (95)	84.74	-6.9	75.91	82.59	2.34	90.97	79.73	86.78	112.11	84.74	105.84
Japan (458)	123.28	-16.6	110.44	112.14	0.62	147.90	130.48	132.48	161.28	100.00	88.64
Malaysia (36)	129.26	-15.3	115.79	126.02	2.90	152.53	134.57	148.24	193.64	98.24	98.94
Mexico (14)	311.06	-11.9	278.65	550.79	0.54	352.93	311.36	626.08	422.59	99.72	78.43
Netherland (37)	95.89	-9.1	85.90	88.99	5.14	105.52	93.09	96.20	131.41	95.89	95.11
New Zealand (23)	104.22	-16.1	93.36	85.60	3.53	124.28	109.65	101.06	138.99	83.93	80.60
Norway (24)	133.57	-18.3	119.65	120.20	2.30	163.52	144.26	145.04	185.01	100.00	103.31
Singapore (27)	106.29	-25.6	95.22	102.49	2.42	142.78	125.96	137.22	174.28	99.29	99.72
South Africa (61)	173.45	-10.0	155.38	128.55	3.32	192.64	169.95	140.39	198.09	100.00	94.97
Spain (43)	150.49	-7.1	134.81	134.13	3.03	162.00	142.92	143.37	168.81	100.00	96.11
Sweden (34)	114.13	-8.0	102.24	107.62	2.15	124.02	109.41	115.62	136.64	90.85	98.15
Switzerland (53)	91.80	-4.2	82.24	85.40	1.98	95.78	84.50	87.65	111.11	91.80	94.22
United Kingdom (335)	125.56	-12.6	112.48	112.48	4.09	143.68	126.76	126.76	162.87	99.65	92.34
USA (584)	96.34	+3.8	86.30	96.34	3.85	92.83	81.90	92.83	137.42	92.83	98.16
Europe (952)	105.98	-9.1	94.94	97.48	3.47	116.57	102.84	105.57	130.02	99.78	94.35
Pacific Basin (680)	123.23	-16.6	110.40	112.45	0.84	147.72	130.32	132.80	158.77	100.00	88.68
Euro—Pacific (1632)	116.38	-14.0	104.26	106.49	1.80	135.30	119.37	121.95	143.65	100.00	90.92
North America (713)	96.64	+2.8	86.57	96.42	3.80	94.04	82.96	93.73	137.55	94.04	98.11
Europe Ex. UK (617)	93.83	-5.9	84.06	88.25	2.95	99.71	87.97	92.32	111.97	93.83	95.36
Pacific Ex. Japan (222)	122.91	-15.7	110.11	116.29	3.51	145.74	128.58	136.74	164.03	99.92	88.60
World Ex. US (1836)	116.59	-13.8	104.45	106.70	1.87	135.33	119.39	121.98	143.38	100.00	91.17
World Ex. UK (2085)	107.10	-8.0	95.94	102.12	2.36	116.45	102.74	110.00	138.82	100.00	94.05
World Ex. So. Af. (2359)	108.32	-8.5	97.04	102.83	2.53	118.41	104.46	111.30	139.47	100.00	93.88
World Ex. Japan (1962)	101.79	-3.1	91.18	98.48	3.66	104.99	92.63	100.89	134.22	100.00	96.41
The World Index (2420)	108.74	-8.5	97.41	103.07	2.54	118.88	104.88	111.56	139.73	100.00	93.89

Base values: Dec 31, 1986 = 100

Amendments to indices for October 19 applied to the following: France, Netherlands, Norway, Switzerland, UK, the regional indices, and The World Index.
Hong Kong market suspended from October 20.

Figures for European Options were not available for this edition

BASE LENDING RATES

	%		%		%
ABN Bank	10	● Charterhouse Bank	10	Nat Bk. of Kuwait	10
Adam & Company	10	Citibank NA	10	NatWestminster	10
Allied Arab Bk Ltd	10	City Merchants Bank	10	Northern Bank Ltd	10
Allied Dunbar & Co	10	Clydesdale Bank	10	Norwich Gen. Trust	10
Allied Irish Bank	10	Comm. Bk. N. East	10	PK Finans. Intl (UK)	10½
American Exp. Bk	10	Consolidated Cred.	10	Provincial Trust Ltd	11
Amro Bank	10	Co-operative Bank	*10	R. Raphael & Sons	10
Henry Ansbacher	10	Cyprus Popular Bk	10	Roxburghe G'antee	10½
ANZ Banking Group	10	Duncan Lawrie	10	Royal Bk of Scotland	10
Associates Cap Corp	10	Equat'r'l Tst C'p plc	10	Royal Trust Bank	10
Authority & Co Ltd	10	Exeter Trust Ltd	10½	Smith & Williams Secs	10
Banco de Bilbao	10	Financial & Gen. Sec.	10	Standard Chartered	10
Bank Hapoalim	10	First Nat. Fin. Corp	11	TSB	10
Bank Leumi (UK)	10	First Nat. Sec. Ltd	11	UDT Mortgage Exp.	¶11.1
Bank Credit & Comm	10	● Robert Fleming & Co	10	United Bk of Kuwait	10
Bank of Cyprus	10	Robert Fraser & Ptrs	11	United Mizrahi Bank	10
Bank of Ireland	10	Girobank	10	Unity Trust PLC	10
Bank of India	10	Grindlays Bank	10	Western Trust	10
Bank of Scotland	10	● Guinness Mahon	10	Westpac Bank. Corp	10
Banque Belge Ltd	10	HFC Trust & Savings	10	Whiteaway Laidlaw	10½
Barclays Bank	10	● Hambros Bank	10	Yorkshire Bank	10
Benchmark Tst Ltd	10	Heritable & Gen. Tst	10		
Beneficial Trust Ltd	11	● Hill Samuel	§10		
Berliner Bank AG	10	C. Hoare & Co	10		
Brit Bk of Mid East	10	Hongkong & Shangh	10		
● Brown Shipley	10	Lloyds Bank	10		
Business Mtge Tst	10	Meghraj & Sons Ltd	10		
CL Bank Nederland	10	Midland Bank	10		
Canada Permanent	10	● Morgan Grenfell	10		
Cayzer Ltd	10	Mount Credit Corp. Ltd	10		

● Members of the Accepting Houses Committee. * 7-day deposits 5%. Sunrise 7.66%. Top Tier—£2,500+ at 3 months' notice 9.31%. At call when £10,000+ remains deposited. ¶ Mortgage base rate. § Demand deposit 4.98%. Mortgage 11.125%.

The Mortgage Bank and Financial Administration Agency of the Kingdom of Denmark

£75,000,000
Guaranteed Floating Rate Notes due 1999, Series 99
Unconditionally guaranteed by
The Kingdom of Denmark
Issue Price 100 per cent.

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from 19 October 1987 to 19 January 1988 the Notes will carry a Rate of Interest of 10½% per annum. The amount of interest payable on 19 January 1988 will be £1,319.67 per £50,000 Note.

COUNTY NATWEST
Agent Bank

Notice is hereby given of suspension of dealing in the following funds until further notice:

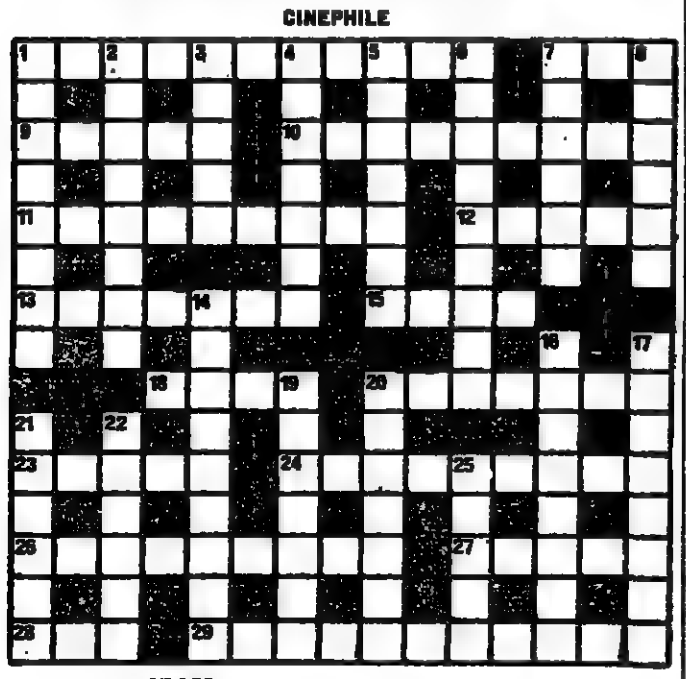
G.T. Asia Fund
G.T. ASEAN Growth Fund
G.T. Australia Fund
G.T. Global Technology Fund
G.T. Honshu Pathfinder Fund
G.T. South China Fund

G.T. Management (Asia) Limited.

October 20 1987

FT CROSSWORD PUZZLE No. 6,461

CINEPHILE



ACROSS
1 Mishap (omission replacing error in middle) for locums (11)
7, 28 Discuss terms on level grassland (6)
9 Madly keen or possibly slack? (5)
10 Among pretty girls, what goes under Uxbridge, native source of sprouts? (9)
11 Mischief was backed by people at junction (9)
12 Sort of call: see most of same (5)
13 Riviera resort opposed to bills of exchange? (7)
15 A bit of a reduction? (4)
18 Dostoievsky's brothers end in the sea (4)
20 Love, in plea to former spouse returning, fell (7)
23 Mythical casus belli in the lending library (5)
24 Pan, maybe, upset round gate (6, 3)
26 Little person, very little, every 60 seconds (3, 6)
27 See 8 down
28 See 7 across
29 See 6 down

DOWN
1 See 3 down
2 Smart, about 4, 1 at birth (8)
3, 1, 5, 7 Neared domain occupationally adapted for body initially identified with Catholic politician (5, 8, 7, 6)
4 Inscribed medicines (7)
5 See 3
6 Liberal leader to court Labour leader: there's the rub! (5, 4)
7 See 3
8, 27 across, 29 across Bar to special offers initially identified with clergy every 60 seconds! (6, 5, 11)
14 Ancient city gives Mitzy a bun (9)
16 Group with celebrity, a nervous collection (8)
17 Be positive about colouring bright viewer (5, 3)
19 Opening for canton to control fluid flow (7)
20 Even-tempered under doctor? (7)
21 Print workers having ... (6)
22 ... revs. with benefit (6)
25 Epitaph on cathedral town (5)

Solution to Puzzle No. 6,460

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Mercury Fund Managers—Contd.

Gilt	89.1	89.5		7.99
(Accum Units)	104.7	105.2		7.97
Global Fund	54.1	57.2		0.64
(Accum Units)	54.1	57.2		0.64
High Income Fund	56.0	59.2		4.32
(Accum Units)	57.5	60.8		4.32
High Interest Fund	42.3	44.7		9.27
(Accum Units)	43.5	46.0		9.27
Income	132.6	140.5		2.60
(Accum Units)	153.0	161.9		2.60
International	309.0	326.9		1.86
(Accum Units)	386.6	409.0		1.86
Japan	217.7	230.3		0.52
(Accum Units)	223.4	236.3		0.52
Pacific Fund	60.6	64.1		0.10
(Accum Units)	60.6	64.1		0.10
Recovery	339.9	359.6		2.26
(Accum Units)	372.1	393.7		2.26
UK Smaller Co's Fund	59.4	62.8		1.56
(Accum Units)	60.0	63.4		1.56

Merlin Fund Mngmnt Ltd
30 St James St, London SW1A 1HB 01-925 1277

Merlin Oct 14	670.5	680.35		0.99

Metropolitan Unit Trust Mngrs Ltd
3 Darkes Lane, Potters Bar EN6 1AL 0707 45184

UK Income Fund	67.2	71.4		4.20
Accum Units	67.8	72.1		4.16
UK Growth Fund Acc	67.7	72.0		1.39
Global Income Fund	50.1	53.2		3.76
Accum Units	50.1	53.2		3.76
Global Growth Fund	50.3	53.5		0.47

Midland Bank Group UT Mngrs. Ltd
Courtwood House, Silver St, Head, Sheffield S1 3RD
Tel: 0742 769842

Capital	–	–	–	–
(Accum Units)	–	–	–	–
Commodity & Gen.	–	–	–	–
(Accum Units)	–	–	–	–
European Growth	–	–	–	–
(Accum Units)	–	–	–	–
Extra High Inc.	–	–	–	–
(Accum Units)	–	–	–	–
Gilt & Fxd. Int.	–	–	–	–

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate, London, EC2R 6BA. 01-588 3763

PM Equity Growth	127.1	135.3		0.95
PM Income and Growth	108.2	115.0		2.08
PM N American Growth	52.3	55.6		0.36
PM European Growth	52.6	55.9		0.56
PM Japan Growth	72.6	77.2		0.35
PM Overseas Growth	54.6	58.0		0.43

Prudential Holborn Unit Trusts Ltd(a) (b) (c)
51-69 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377
Holborn LinkLine 0800 010945

Holborn Comm Tst.	66.1	69.7		0.44
Holborn Equity Income	63.2	66.4		3.86
Holborn Equity Tst	471.7	497.4		2.71
Holborn European Tst.	109.0	114.9		0.72
Holborn Premier Inc.	41.2	43.4		2.16
Holborn High Inc Tst.	78.5	82.8		5.21
Holborn Intl Grth Tst.	96.67	101.9		0.86
Holborn Intl Sm Cos.	40.9	43.1		0.06
Holborn Japanese Tst.	114.6	120.9		0.05
Holborn N. Amer. Tst.	67.3	71.0		0.48
Holborn Sm Cos Tst.	69.7	73.5		1.58
Holborn Spec Sits Tst.	82.71	87.27		1.68
Holborn UK Growth Tst.	89.25	94.16		1.99

Quilter Management Co Ltd
31-45 Gresham Street, London EC2 01-600 4177

Quadrant Gen. Fd.	692.8	735.2		1.39
Quadrant Income	353.9	374.6		3.93
Quadrant Intl. Fund	461.1	488.8		1.08
Quadrant Spec. Sits.	495.4	504.3		1.11

Reliance Unit Mgrs. Ltd
Reliance House, Tunbridge Wells, Kent 0892 510033

British Life	197.3	209.7	-36.9	2.88
Reliance Unit Tst (Inc)	145.1	154.2	-36.4	1.71
Reliance Ut Tst (Acc)	196.2	208.5	-35.1	1.71

Rensburg Fund Managers
Silkhouse Ct., Tithebarn St., Liverpool. 051-227 2030

Internat. Growth Trust	49.9	52.4	–	–

N.M. Rothschild Fund Mgmt

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance—Contd.

Gilt-Edged Inc.	224.8		—
Do. Accum	277.6		—
Guaranteed Inc.	159.4		—
Do. Accum	196.9		—
International Inc.	507.0		—
Do. Accum	625.6		—
Index Lk Gilt Inc	128.8		—
Do. Accum	159.0		—

Merchant Investors Assurance

Leon House, 233 High St, Croydon 01-686 9171

Property	323.4		—
Property Pens.	439.1		—
Equity	193.7		—
Equity Pens.	862.2		—
Money Market	298.1		—
Money Mkt. Pens.	531.1		—
Deposit	240.5		—
Deposit Pens.	386.2		—
Managed	298.7		—
Managed Pens.	575.6		—
Intl. Equity	352.8		—
Do. Pens.	570.2		—
Intl. Managed	322.5		—
Do. Pens.	477.6		—
North American	124.5		—
Do. Pens.	139.2		—
Far East	302.7		—
Do. Pens.	450.1		—
Intl. Currency	163.2		—
Do. Pens.	216.6		—
Index Linked	118.9		—
S & C Managed Fd	138.7		—
S & C Pens. Mngd Fd	112.3		—
Bell Chambers	130.0		—
Lorne & Loran	122.9		—
Mitos Mngd Fnd	160.9		—

Trustlink Life Funds

Per Worldwide Rec.	166.3		—
Per Far East Growth	218.3		—
Per Intl Growth	162.7		—
Per Income	167.6		—
Per Emergency Cos.	159.6		—
Per American Growth	139.3		—
Per European Growth	136.0		—

Norwich Union Asset Management Ltd

PO Box 124 Norwich NR1 3JS

NUAM Funds

Managed Fund
Stock Market Mngd Fund
Equity Fund
International Fund
European Fund
North American Fund
Pacific Fund
Property Fund
Fixed Interest Fund
Index linked Sec Fund
Deposit Fund

NUAM Retirement Plan

Mixed Fund
UK Ordinary Share
International Fund
Property Fund
Fixed Interest Fund
Index Linked Sec Fund
Deposit Fund

NUAM (NF)

Managed Fund
Equity Fund
Property Fund
Fixed Interest Fund
Deposit Fund
International Fund
Index Linked Sec Fund

Norwich Union Life Insurance Soc.

PO Box 4 Norwich NR1 3NG

Fixed Interest Fund
Index-Linked Sec Fund
Ordinary Share Fund
International Fund
Property Fund
Deposit Fund
Mixed Fund
Norwich Units Oct 15

Pearl Assurance (Unit Funds) Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1987 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
101	100	Treas. 12pc 1987	100 xd	—	—	—
99	97	Treas 7¼pc 1985-88‡‡	99	+	7.79	9.27
102¼	99	Exch 10½pc '88	100 xd	+	10.47	9.99
101	98	Treas 9¾pc Cv '88	99	+	9.78	10.12
97	93	Transport 3pc '78-88	96	+	3.11	8.06
100	98	Treas. 9½pc '88	99 xd	+	9.55	9.97
105	101	Treas 11½pc 1989	101	+	11.32	10.11
102	97	Treas 9½pc Cnv 1989	99 xd	+	9.58	10.11
94	89	Treas 3pc 1989	93 xd	+	3.23	7.93
104	99	Treas 10½pc 1989	100	+	10.45	10.17
103	98	Exch 10pc 1989	99	+	10.02	10.10
105	100	Exch 11pc 1989	101	+	10.83	10.09
95	89	Treas 5pc 1986-89	92 xd	+	5.39	9.05
108	99	Exch 10¼pcCv '89	100 xd	+	10.14	9.64
111	104	Treas 13pc 1990‡‡	105	+	12.30	10.05
106	100	Exch 11pc 1990‡‡	101	+	10.82	10.13
110	103	Exch. 12½pc 1990	104 xd	+	11.92	10.16
91	84	Treas. 3pc 1990	88 xd	+	3.40	8.15
100	93	Treas 8¼pc 1987-90‡‡	95	+	8.67	10.38
105	97	Treas. 10pcCv 1990	99 xd	+	10.04	10.15
89	81	Exch 2½pc 1990	85 xd	+	2.92	7.83
110	102	Treas 11¾pc 1991	103	+	11.29	10.17
95	87	Funding 5¾pc '87-91‡‡	89 xd	+	6.48	9.65
89	80	Treas. 3pc 1991	84 xd	+	3.55	8.12
110	98	Treas 10pc Cv '91 ‡‡	99	+	10.09	10.08
109	101	Exch. 11pc 1991	102	+	10.72	10.17
96	91	Treas. 8pc 1991	92	+	[illegible]	[illegible]
116	107	Treas 12¾pc 1992‡‡	108	+	11.75	10.19
106	97	Treas 10pc 1992	99	+	10.07	10.16
99	90	Treas. 8pc 1992 ‡‡	92	+	8.70	10.25
108	99	Treas 10½pc Cv 1992‡‡	101 xd	+	10.39	10.19
85	79	Treas. 3pc 1992	79	+	3.74	8.03
115	105	Exch. 12¼pc '92	107	+	11.41	10.25
121	110	Exch 13½pc 1992	112	+	12.09	10.26

BRITISH FUNDS—Contd

Undated

1987 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
45	39	Consols 4pc	40	+	9.83	—
40	34	War Loan 3½pc‡‡	35	+	9.78	—
51	46	Conv. 3½pc '61 Aft.	47 xd	+1	7.43	—
34	29	Treas. 3pc '66 Aft.	30 xd	+	10.04	—
28	24	Consols 2½pc	25 xd	+	10.00	—
28	24	Treas. 2½pc	25 xd	+	9.95	—

Index-Linked

1987 High	Low	Stock	(b)	Price £	+ or −	(1)	(2)
132	125	Treas. 2pc '88	(297.1)	131 xd	—	—	—
117	108	Do. 2pc '90	(333.9)	114	+	2.40	3.41
99	93	Do. 2pc '92‡‡	(385.8)	95	+	3.12	3.64
128	119	Do. 2pc '96	(267.9)	120	+1	4.16	4.47
111	96	Do 2½pc '01	(308.8)	98	+1	4.62	4.80
110	94	Do. 2½pc '03	(310.7)	95 xd	+1	4.61	4.79
113	94	Do. 2pc '06	(274.1)	96	+1	4.51	4.66
108	89	Do. 2½pc '09	(310.7)	90 xd	+1	4.45	4.59
113	93	Do. 2½pc '11	(294.1)	94	+1	4.39	4.53
95	76	Do. 2½pc '13	(351.9)	78	+1	4.39	4.42
103	83	Do. 2½pc '16	(322.0)	84	+1	4.27	4.39
101	81	Do. 2½pc '20	(327.3)	82 xd	+1	4.18	4.28
86	68	Do. 2½pc '24 ‡‡	(385.3)	69	+1	4.19	4.20

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for February 1987: 100.4 and for September 1987: 102.4 (rebased at 100 January 1987 conversion factor 3.945).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

UNIT TRUST NOTES

AMERICANS—Continued

1987 High	Low	Stock	Price $	+ or –	Div Gross	C'vr	Y'ld Gr's
39	26½	Rio NY Corpn $5	28⅞	–¼	$1.16	—	2.5
18¼	8¾	Rockwell Intl. $1	8¾	–3¾	66c	—	4.6
30⅞	16¼	Sara Lee $1	16¼xd	–6⅞	$1.00	—	3.8
11⅞	8⅞	Saul (B. F.) $1	11⅛	+⅛	20c	—	1.1
27½	2¼	Southwestern Bell $1	18	–5	h$2.32	—	7.9
22½	14¼	Staley Continental	14¼	–1¼	80c	—	3.3
44⅞	21⅝	Sun Co. Inc. $1	23⅝	–7⅞	$3.00	—	8.5
42¼	25½	TRW Inc. $0.625	25½	–6⅝	h$1.60	—	3.9
37½	25⅞	Tenneco $5	26½	–6⅞	$3.04	—	7.1
220	149½	Do 10pcLn.Stk. 91-5	220xd	....	10%	—	14.7
29⅝	17⅞	Texaco $6.25	18½xd	–3⅝	$3.00	—	9.9
74⅞	47½	Time Inc. $1	48⅝xd	–9⅞	$1.00	—	1.3
19¼	11	Tracor $0.33	18⅞xd	–¼	40c	—	1.3
30¼	15⅞	Transamerica $1	15⅞xd	–6⅛	$1.84	—	7.2
14⅝	1⅞	Transworld Corp $5	824p	–180	20c	—	1.5
27⅝	12⅝	TRINOVA Corp.	12⅝	–7	h$1.00	—	4.9
24⅞	12⅝	♥USX $1	12⅝	–7⅞	$1.20	—	5.8
19⅝	13½	Union Carbide $1	13½	–2⅛	$1.50	—	6.8
37⅝	23⅞	Utd. Technologies	23⅞xd	–5½	$1.40	—	3.7
38⅝	26½	US West	26½	–8⅝	$3.28	—	7.7
30½	17½	Waste Management $1	18⅝	–5⅝	—	—	—
£31½	£15	Whirlpool $1.0	£15	–3⅞	—	—	—
37½	21½	♥Woolworth $3½	21½	–3⅞	$1.32	—	3.7

CANADIANS

High	Low	Stock	Price	+ or –	Div	C'vr	Y'ld
691p	362p	ABM Gold Corp ‖	378p	–63	—	—	—
21½	10p	♥Abbot Energy Corp.	10½p	.....	—	—	—
18¼	506p	♥Amer. Barrick Res.	11⅞	–3¼	—	—	—
136p	32p	Amer. Daleco	34½p	–21	—	—	—
141p	20p	American Lightwave	21p	+1	—	—	—
122p	52p	♥Armeno	60¼p	–½	—	—	—
117	44	Augmitto Explz.	78p	–10½	—	—	—
19⅝	12⅝	Bk. Montreal ‖	12⅝	–½	$2.00	—	7.3
10½	626p	Bk. Nova Scot.‖	626p	–27	72c	—	5.3
20⅝	15⅞	BCE ‖	15⅞	–1	$2.40	—	7.0
10½	712p	♥Bow Valley‖	758p	–73	♦40c	—	2.4
20	12⅝	♥Brascan‖	14	–1⅞	88c	—	2.9
607p	277p	♥Breakwater Res.	350p	–14	—	—	—
11⅝	781p	Can.Imp.Bk. $2	781pxd	–101	$1.08	—	6.4
14	865p	Can. Pacific ‖	10½	–2	60c	—	2.7
42½	37½	Do. 4pc Deb £100	41½	....	4%	—	9.6
827p	436p	Central Capital 'A' ‖	436p	–89	—	—	—
152p	74p	Dantus Res.	92p	–22	—	—	—
786p	533p	Derlan Inds.	533p	–15	11.75c	—	1.0
18	756p	♥Echo Bay Mines	14⅝	–1⅞	20c	—	0.6
591p		Energex Minerals	459p	–67	—	—	—
230p	66p	Euro-Asia Capital Ltd.	133p	–18	—	—	—
821p	283p	♥Galactic Resources	544p	+2	—	—	—
69p	41½p	Global Data Systems	45p	–12½	—	—	—
873p	393p	Granges Explor‖	619p	–51	—	—	—
19p	10p	♥Gt Pacific Res.	11½p	–½	—	—	—
14½	781p	♥Gulf Canada‖	826p	–544	52c	—	2.9
14½	10	♥Hawker Sid Can‖	10⅝	–½	96c	—	4.2
740p	460p	Healys Group	573p	–50	—	—	—
14½	10¼	♥Hudson's Bay ‖	20¼	–¼	60c	—	2.7
38½	24½	♥Imperial Oil‖	30½	–2⅛	s$1.60	—	2.4
14¼	782p	Inco‖	11	–1¼	US$0.20	—	1.1
34½	14½	♥Intl. Corona Res	30¼	–1⅞	—	—	—
785p	527p	♥Inland Nat. Gas $1	527p	–56	60c	—	5.2
10¼	385p	♥Lacana Mining Corp‖	885p	–67	0.15c	—	0.9
756p	129p	Madeleine Mines	402p	–90	—	—	—
365p	158p	♥Mascoche Explo.	241p	+12	—	—	—
11⅝	748p	♥Ntrl Business Syst.‖	850p	–148	—	—	—
623p	338p	♥Nevada Goldfields	407p	+1	—	—	—
251	927p	♥Rio Algom	940p	–85	$1.30	—	6.4
19¼	13½	Royal Bk. Can. ‖	13½	–⅜	$2.08	—	7.3
403p	136p	♥Royex Gold Mining‖	335p	–17	—	—	—
52½	34⅞	Seagram‖	34⅞	–5	US$1.00	—	1.8
731p	236p	♥Sonora Gold Corp‖	516p	–17	—	—	—
308p	64½p	Spiral Eng.	64½p	–21	—	—	—
15⅞	11½	Toronto-Dom. Bk.‖	12¼xd	–1⅛	84c	—	3.2
228p	19p	♥Trans Atlantic Res ‖	59½p	–11½	—	—	—
10¼	741p	♥Trans Can Pipe	741p	–38	$1.12	—	7.0
200p	124p	Varity Corp‖	143p	+17	♦—	—	—

BANKS, HP & LEASING

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
259	146	ANZ SA1	193	–11	h020.7c	2.4	4.8	8.6
273	176	Allied Irish	205	–35	061.6%	2.8	6.9	7.1
116⅞	£11	Algemene Fl.10	£21	–1	02.7%	2.1	7.4	6.4
128	53	Anglo Irish	90	–5	q019.6%	1.4	4.9	22.9
108	84	Ansbacher (H.) 1p	98½	–3½	12.0	—	2.8	—
£49½	£24¼	Banco de Bilbao S.A.	£47¼	–2	038%	3.0	2.1	16.1
£34½	£23½	Banco de Santander	£32¼	–1½	019.15%	2.7	1.5	24.5
245	175	Bank Ireland Ir£1	205	–11	015.93%	2.9	7.1	7.1
£15	£11½	Bank Leumi	£15	.....	—	—	—	—
340	240	Bk. Leumi (UK) £1	350	.....	12.4	—	4.9	—

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

INSURANCES

LONDON SHARE SERVICE

INSURANCES—Continued

LEISURE

MOTORS

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING—Continued

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Cont.

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

FINANCE, LAND—Cont.

Finance, Land, etc

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES—Continued

Australians

Tins

Miscellaneous

THIRD MARKET

1987 High	Low	Stock	Price	+ or -	Div Net	C'vr	Gr's	P/E
228	150	Crown Eyeglass 5p	165	-20	—	—	—	—
52	6	Eglinton Explo. (IR.5)	20	-3	—	—	—	—
41	11	Do. Warrants	11	-5	—	—	—	—
185	101	Far East Res. 10p	128	-18	—	—	—	—
110	50	Gardner (J.) 5p	80	-20	R1.25	2.3	2.1	27.7
55	29	Honorbilt Group 5p	36	-5	—	—	—	30.3
133	65	Leading Leisure 5p	90	-18	0.9	3.1	1.4	26.0
90	68	Lynx Tech. 5p	90	+15	b—	—	—	10.3
180	115	Medirace 10p	135	-28	—	—	—	—
98	44	♦Ovoca Gold IR0.02	68	-20	—	—	—	—
82	17	Publishing Hldgs. 5p	41xr	-17	—	—	—	24.7
87	45½	Theme Holdings	62	-6	1.0	1.9	2.2	33.2
210	140	UPL Group 10p	187	-13	L2.41	2.8	1.8	—
140	111	Unit Group	133	-12	[illegible]	2.5	6.6	[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ▼ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- ◊ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ## Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	98	-7
Craig & Rose £1	730	-8
Finlay Pkg. 5p	103	-12
Holt (Jos) 25p	£11¼xd	-¼
IoM Stm. £1	353	—

IRISH

Fund 11¼% 1988	£100⅝	—
Nat. 9¾% 84/89	£98⅞	—
Fin. 13% 97/02	£109⅞	—
Arnotts	390	—
CPI Hldgs	94	—
Carrol Inds.	198	—
Dublin Gas	402	—
Hall (R. & H.)	175	—
Heiton Hldgs.	72	—
Irish Ropes	185	—
Norish	345	—
Unidare	440	—

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	19
BAT	62
BOC Grp.	50
BSR	17
BTR	36
Babcock	32
Barclays	52
Beecham	52
Blue Circle	50
Boots	30
Bowaters	50
Brit Aerospace	50
Brit. Telecom	28
Burton Ord	32
Cadburys	25
Charter Cons.	45
Comm Union	34
Courtaulds	45
FNFC	32
Gen Accident	95
GEC	22
Glaxo	200
Grand Met	58
GUS 'A'	125
Guardian	95
GKN	38
Hanson Tst.	17
Hawker Sidd	58
ICI	125
Jaguar	52
Ladbroke	45
Legal & Gen	32
Lex Service	45
Lloyds Bank	35
Lucas Inds.	75
Marks & Spencer	22
Midland Bk	45
Morgan Grenfell	55
NEI	13
Nat West Bk	65
P & O Dfd	65
Plessey	20
Polly Peck	34
Racal Elect	32
RHM	35
Rank Org Ord	70
Reed Intnl	50
STC	30
Sears	16
TI	37
TSB	12
Tesco	18
Thorn EMI	65
Trust Houses	25
T&N	26
Unilever	62
Vickers	20
Wellcome	42
Property	
Brit Land	30
Land Securities	50
MEPC	48
Peachey	40
Oils	
Brit Petroleum	32
Britoil	30
Burmah Oil	52
Charterhall	10
Premier	11
Shell	125
Tricentrol	11
Ultramar	26
Mines	
Cons Gold	125
Lonrho	28
Rio T Zinc	100

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON STOCK EXCHANGE

Account Dealing Dates			
*First Dealings	Option Declarations	Last Dealings	Account Day
Sept 28	Oct 8	Oct 9	Oct 19
Oct 12	Oct 22	Oct 23	Nov 2
Oct 26	Nov 5	Nov 6	Nov 16

*New time dealings may take place from 9.00 am two business days earlier.

Equities suffer another heavy fall but Government securities extend their gains

The UK stock market suffered another heavy loss yesterday, closing on a weakening note as rumours circulated in London of problems in the Wall Street market. The final downturn snuffed out a determined rally which had been prompted by authoritative assurances from the US and West Germany of commitment to support both securities markets and major currencies.

The statements by Mr Alan Greenspan, chairman of the US Federal Reserve Board, and by Herr Gerhard Stoltenberg, West German Finance Minister, calmed nerves for a while. But share prices turned off again on widespread rumours of trading difficulties within the US market specialist system.

The FT-SE 100 Index ended 250.7 down at 1801.6, a fall of 12.2 per cent on the day and of 21.7 per cent since the end of last week. The index has taken only two trading sessions to return to levels last seen in mid-January. At 1439.2, the FT Ordinary Index lost 190 points.

Government bonds, firm from the opening in response to a rebound in US Federal securities, extended their gains despite disappointment with the latest UK bank lending figures. Bonds were helped by cuts in prime rates by several major US banks, but the best prices were not held at the end of the day.

Both markets had another difficult session, with equities dominated by inter-marketmaker dealings, and bond traders doing their best to "keep out of the way", as one dealer admitted.

The closing equity market indices reflected a partial recovery from the day's lows when the FT-SE 100 was down by 304.1 points at 1748.2. The market was in a "free fall" during the morning, when London's dismay at the slaughter on Wall Street and in other world markets overnight saw the FT-SE 100 Futures contract down to 1390 at one time - a discount of 400 points on the underlying index.

Trading volume in some major stocks increased towards the close of the session. Earlier, both buyers and sellers were finding it difficult to deal. Until 11.00am, "fast market" rules applied, under which marketmakers are not bound to deal at their Seaq screen prices.

Some institutions found it difficult to trade. The pace of the market fall has taken many of them by surprise, and also caught some when their cash is tied up in the underwriting of the British Petroleum fixed offer deal.

Michael Howell, European equity strategist at Salomon Bros, said, "Stocks look very attractive at these levels. We still *don't see any general rise in interest rates*".

But the market's reaction to Wall Street's inability to hold early gains indicated the underlying nervousness in London's securities markets. A report that the damage wrought by the hurricane at the end of last week and the floods over the weekend may well wipe out the trading profits made by **Sun Alliance** over the first nine months of the year saw the latter's shares slump to 808p before steadying to close a net 78 off at 870p - a two-day fall of 235p. **Royal Insurance**, also said to have had its profits severely dented by the disasters, plummeted 60 to 433p - a decline of over 100p in two days. **General Accident** gave up 90 to 863p, **Guardian Royal** lost 68 to 365p and **Commercial Union** - where turnover exceeded 7m shares - retreated 38 more to 379p.

Life assurances endured another day of major losses. **Abbey Life** dropped 56 to 223p, after 210p, **Legal & General** fell 32 to 280p, after 265p, and **Prudential** slumped 153 to 825p.

Although generally well above the day's lows the clearing banks suffered another severe mauling. **NatWest**, where some 11m shares changed hands, dropped below 500p at one point before closing a net 135 down at 523p.

Merchant banks with securities operations took another heavy pasting with **Morgan Grenfell** down over 100p early on before rallying to close with a 76 decline at 388p after insurance broking group **Willis Faber** *said its near 21 per cent stake in* the bank was up for sale at the right price. **SG Warburg**, despite having one of the most successful of the securities trading operations in the City, dropped 70 to 418p. **Kleinwort Grieveson** lost a similar amount to 410p.

The list of sizeable losses stretched from leading to secondary issues in the Drinks sector, although only **Allied-Lyons** and **Guinness** traded in any volume. Some 6m shares changed hands in both with the the former closing 36 lower at 352p, this despite a good mid-afternoon rally, and the latter 60 down at 267p. The carnage in the Building sector was repeated yesterday. Losses again stretched well into double figures despite the firmer opening on Wall Street and a mid-afternoon UK rally, which took prices away from the day's lowest levels. By the close of business, the leaders showed falls in the region of 40p as in **Blue Circle**, 395p, and **RMC**, 461p. **Tarmac** fell a further 31 to 246p and **Redland** dropped 25 to 457p. Among Construction issues, **Taylor Woodrow** lost 56 at 368p and **AMEC** shed 33 at 361p. **Barratt Developments**, still the subject of bid rumours, reacted to 183p at one stage prior to closing 29 lower at 193p. **Steetley** were 32 off at 311p and **BPB Industries** 19 down at 284p. Timber shares suffered with **Meyer International** losing 53 at 363p and **Magnet** 32 at 222p. Recent high-flyers such as **Tay Homes** and **Polypipe** gave considerable *ground, the former falling 88 to* 365p and the latter losing 58 to 325p.

Major international stock **ICI** traded within a wide range and, having dipped to around £12 at one stage, rallied stongly to £14⅛ prior to falling back again to close 1⅞ lower on balance at £12½. **Laporte** closed 19 down at 520p; Solvay Group has increased its holding to 23.03 per cent. **Ancher** closed 5 higher at 490p underpinned by excellent interim results.

The leading retailers mirrored the overall market trend. **Marks and Spencer** settled 18 off at 213p, with 16m shares changing hands. **Harris Queensway**, scheduled to announce interim figures tomorrow - Wood Mackenzie are forecasting £9m pretax - were 17 easier at 152p.

Allebone provided one of the day's few rises, with the shares moving up 12 to 110p following the 120p a share cash bid from Charterhall which already has a near 30 per cent stake.

Turnover in **Brit Telecom** topped 33m shares and the share price gyrated widely before closing a net 20 lower at 223p. **GEC**, 25m shares traded, fell a like amount to 187p.

The £3m contract to supply advanced colour monitors for UK and French AWACs failed to stem selling pressure in **Racal** which ended the session 38 cheaper at 258p. **Cambridge Instruments** lost 12 to 93p after the proposed acquisition for £9m of a unit of LKB of Sweden.

Engineers suffered another round *of substantial losses*. **Hawker**, awaiting today's half-yearly figures, weakened afresh to close 80 lower at 442p. **Rolls-Royce**, privatised earlier this year, fell away in a heavy volume of trade to finish 32½ off at 152½p compared with the offer-for-sale price of 170p. **S.W. Wood**, a recent speculative counter, weakened 21 to 135p, while high-fliers to react sharply included **Braithwaite**, 71 off at 310p, and **T.Robinson**, 79p down at 505p.

Foods had another traumatic session. **Tate and Lyle** closed 72 down at 756p while **United Biscuits** fell 35 to 262p. **RHM** settled 20 lower at 315p, a relatively modest fall - Goodman Fielder of Australia has increased its holding in RHM to 29.9 per cent and is seeking boardroom representation, but has no intention of making a bid for the company within the next six months unless there is a material change in RHM's circumstances. RHM is willing to discuss co-operation proposals with Goodman, but initially views the latter's increased stake as hostile. Other casualties in the Food sector included **Northern**, 45 down at 248p, and **Associated British Foods**, 34 lower at 314p.

A mid-afternoon rally in the Hotel sector petered out and most prices reverted to their lowest levels. **Grand Metropolitan** settled 75 down at 444p while **Ladbroke** gave up 45½ at 367p.

International stocks sustained another hefty setback at the opening in the face of the overnight rout on Wall Street. However, prices bounced back following the a good early recovery in the US before drifting off again to close with fresh losses extending to 50 and sometimes more. **Hanson Trust** were again one of the most actively traded stocks (some 33m shares changed hands) and closed 28½ down at 116p. Although 11 above the day's lowest, **Glaxo** still finished with a fresh loss of 1⅞ at £10⅝. **Fisons** gave up 52 further to 262p while **Wellcome** dipped 59 more to 330p in a relativley low business volume. **Reuters** tumbled 125½ further to 505p. **Pearson**, in which Mr Rupert Murdoch recently acquired a near-15 per cent stake, reacted smartly to close 142 cheaper at 793p while **Reed International** dipped 95 more to 415p. Other possible bid candidates to fall sharply included **Christies International**, down 115 at 538p, and **Waterford**, 15 lower at 93p. **British Aerospace**, 28 off at 447p, failed to benefit from the £10m order for contraband dectector systems from Japan.

The despondency was mirrored throughout the Motor sections by losses ranging to three-figures amounts. **Caffyns** plunged 112 to 473p while **Lucas Industries** sustained another sharp setback, falling 95 to 604p. More favourable currency influences failed to comfort **Jaguar**, down 95 further at 410p, and **Kwik-Fit** slipped 42 to 182p. **Airflow Streamlines** ended 53 lower at 190p. Others to take a beating included **D.C.Cook**, 35 easier at 215p, **Lex Service**, 44 cheaper at 426p, and **Lookers** which fell 75 to 305p.

Three-digit falls were commonplace among Communication and Agency shares. **Shandwick** collapsed 115 to 635p while similar losses were sustained by **WPP**, 690p, and **KLP**, 355p. There was no relief for **Jefferson Smurfit**, down 140 at 435p, or **Eucalyptus Pulp**, which tumbled 125 more to 675p. **Aspen Communications** fell 115 to 425p and **Carlton** lost 83 to 705p. The joint agreement with IPEC for the expansion of Comline News Service, a spin-off of the international information services division of Japan's ODS Corporation, gave little support to **BPCC**, shortly to change its name to Maxwell Communication Corporation, which ended 46 down at 247p. Newspapers also fared badly, **Independent** losing 270 to 425p and **Trinity** 115 to 860p. **Associated** gave up 49 further at 530p while **United** lost 49 to 492p.

Bat Industries wilted afresh to close 66 down at 506p and **Rothmans** fell 59 to 405p.

Smith New Court, the independent marketmaker, weakened anew with the shares at one point touching 160p - some 60 per cent down on Friday's level - before a close of 48 lower on the day at 250p. Other miscellaneous Financials ended sharply lower. **British & Commonwealth** fell 72 to 378p, **GT Management** lost 60 to 345p and **Tyndall** 99 to 304p.

BP retreated another 31 to 286p as the Chancellor of the Exchequer stated that the biggest of the privatisation issues is to go ahead despite the slump in markets worldwide; turnover in BP topped 39m shares. **British Gas** were also an extremely active market and settled 8 off at 140p after 56m shares had moved through the system.

Overseas Traders were dragged down and **Inchcape** settled 175 off at 690p, while **Harrisons & Crosfield** ended 79 lower at 578p. **Polly Peck** suffered a similar fate at 303p, down 56.

Traditional Options

- First dealings Oct 5
- Last dealings Oct 16
- Last declarations Jan 7
- For Settlement Jan 18

For rate indications see end of London Share Service

Stocks to attract money for the call included **Barratt Developments, Hanson Trust, Dee Corporation, Brunswick, Eagle Trust, BSR, STC, Trimoco, Monarch Resources, British Airways, Pavion, Marks and Spencer, Cable and Wireless, Wellcome, J. Crowther, Central and Sheerwood, Control Securities, Dares Estates, Abaco, Amstrad, 600 Group, Dowty, Rolls-Royce, ICI, Blue Arrow, TSB** and **Lonrho**.

FINANCIAL TIMES STOCK INDICES

	Oct. 20	Oct. 19	Oct. 16	Oct. 14	Oct. 13	Year ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	85.21	83.73	84.90	85.65	85.78	82.56	93.32 (8/5)	83.73 (19/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	91.11	91.05	91.50	91.67	92.27	88.94	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1439.2	1629.2	1812.9	1834.7	1847.4	1265.2	1,926.2 (16/7)	1,320.2 (2/1)	1,926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	427.6	444.2	436.3	438.2	447.6	290.5	497.5 (4/8)	288.2 (19/2)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.21	3.70	3.32	3.28	3.26	4.40				
Earnings Yld.%(full)	10.33	9.07	8.15	8.06	8.00	10.11				
P/E Ratio (net)(*)	11.84	13.49	15.01	15.17	15.28	12.12				
SEAQ Bargains (5 pm)	78,969	56,790	34,797	35,468	37,495	—				
Equity Turnover (£m)	—	2525.34	1629.09	1735.08	4133.29	531.51				
Equity Bargains	—	55,708	39,910	43,062	44,576	38,732				
Shares Traded (ml)	—	708.4	514.8	673.2	522.7	284.9				

S.E. ACTIVITY Indices	Oct. 19	Oct. 15
Gilt Edged Bargains	129.5	121.5
Equity Bargains	361.0	258.6
Equity Value	5104.4	3292.8
5-Day Average		
Gilt Edged Bargains	115.4	111.4
Equity Bargains	306.5	307.0
Equity Value	4564.1	4729.6

Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1480.1	1438.8	1434.8	1389.7	1440.9	1465.7	1569.2	1493.6

Day's High 1569.5 Day's Low 1389.5 Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 15.67 * Nil=11.67.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (1)
INDUSTRIALS (1) Third Mile Inv.

NEW LOWS (245)
LOANS (1), AMERICANS (79), CANADIANS (12), BANKS (10), BREWERS (8), CHEMICALS (6), STORES (6), ELECTRICALS (22), ENGINEERING (8), FOODS (4), INDUSTRIALS (16), INSURANCE (10), LEISURE (8), MOTORS (2), NEWSPAPERS (3), PAPERS (2), PROPERTY (3), SHIPPING (1), TOBACCOS (1), TRUSTS (36), OILS (12), PLANTATIONS (5), MINES (14), THIRD MARKET (4).

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing price	Day's change
ASDA-MFI	[illegible]	[illegible]	[illegible]
Allied Lyons	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	[illegible]	[illegible]	[illegible]
Corporations, Dominion and Foreign Bonds	[illegible]	[illegible]	[illegible]
Industrials	[illegible]	[illegible]	[illegible]
Financial and Properties	[illegible]	[illegible]	[illegible]
Oils	[illegible]	[illegible]	[illegible]
Plantations	[illegible]	[illegible]	[illegible]
Mines	[illegible]	[illegible]	[illegible]
Others	[illegible]	[illegible]	[illegible]
Totals	229	2,439	308

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries.

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday October 20 1987 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 27%)	Est. P/E Ratio (Net)	xd adj. 1987 to date	Mon Oct 19 Index No.	Fri Oct 16 Index No.	Thu Oct 15 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (214)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (720)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Index No.	Day's Change	Day's High	Day's Low	Oct 19	Oct 16	Oct 15	Oct 14	Oct 13	Year ago
FT-SE 100 SHARE INDEX ♦	1801.6	-250.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST

PRICE INDICES	Tue Oct 20	Day's change %	Mon Oct 19	xd adj. today	xd adj. 1987 to date
British Government					
1 5 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 5-15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Over 15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Irredeemables	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 All stocks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-Linked					
6 5 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Over 5 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 All stocks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Debentures & Loans	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Preference	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AVERAGE GROSS REDEMPTION YIELDS	Tue Oct 20	Mon Oct 19	Year ago (approx.)
[illegible]	[illegible]	[illegible]	[illegible]

LONDON TRADED OPTIONS

Option		Calls Oct.	Calls Jan.	Calls Apr.	Puts Oct.	Puts Jan.	Puts Apr.
Allied Lyons (*374)	360	20	35	48	5	18	[illegible]
	390	7	20	35	25	35	[illegible]
	420	2	10	22	50	57	[illegible]
Brit. Airways (*172)	170	15	—	—	13	—	[illegible]
	180	5	20	28	20	28	[illegible]
	190	2	—	—	30	—	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price	+ or -	Net Div.	Times Covered	Gross Yield	P.E. Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (Continued)

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

JAPAN (Continued)

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 49

Stock	Sales (Hnds)	High	Low	Last	Chng
RgcyCr	7342	25-16	d1 3-16	15-16	3
RgcyEl .20	39 555	$5\frac{3}{8}$	d $4\frac{1}{8}$	$4\frac{1}{4}$	$-\frac{1}{4}$
Reginas	13 458	$12\frac{7}{8}$	10	$10\frac{3}{8}$	$-3\frac{3}{8}$
RegIBc	6 138	13	d$12\frac{3}{4}$	$12\frac{3}{4}$	$-\frac{7}{8}$
Repign	1042	$10\frac{1}{8}$	$7\frac{7}{8}$	$8\frac{1}{4}$	2

[illegible]

CANADA

TORONTO

Prices at 2.30pm. October 20

[illegible]

MONTREAL

Closing prices October 19

[illegible]

Indices

NEW YORK DOW JONES

[illegible]

STANDARD AND POOR'S

[illegible]

TRADING ACTIVITY

[illegible]

TOKYO – Most Active Stocks Tuesday, October 20, 1987

[illegible]

LONDON – Most Active Stocks Tuesday, October 20, 1987

	Stocks Traded	Closing Price	Change on Day		Stocks Traded	Closing Price	Change on Day
[illegible]	63.0m	315	−20	[illegible]	25.0m	188	−19
Brit Gas	55.0m	148	−9	[illegible]	20.0m	258	−38
BP	38.0m	280	−31	Rolls Royce	20.0m	152½	−31½
Hanson Tr.	33.0m	116	−28½	[illegible]	17.0m	388	−40
Brit Telecom	32.0m	223	−20	[illegible]	16.0m	213	−16

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Pacificorp	1,923,000	$29\frac{3}{4}$	$-4\frac{1}{2}$	IBM	6,279,800	$103\frac{1}{4}$	$-31\frac{3}{4}$
Cum Gas	1,667,700	$24\frac{1}{4}$	$-2\frac{1}{8}$	Ford Motor	5,079,600	69	$-13\frac{1}{4}$
AT&T	0,637,500	$23\frac{1}{4}$	$-6\frac{1}{4}$	Amer Express	4,991,900	$21\frac{1}{8}$	$-8\frac{5}{8}$
Gen Elec	7,117,000	$41\frac{1}{2}$	$-9\frac{1}{4}$	Santa Fe	4,881,800	$41\frac{1}{2}$	$-9\frac{5}{8}$
Exxon	4,707,600	35	$-8\frac{3}{4}$	Gillette	4,777,700	24	$-8\frac{1}{4}$

LONDON Chief price changes (in pence unless otherwise indicated)

RISES:

Exch.12pc2013/17 ..£119⅝ +2$\frac{11}{16}$

FALLS:

Beecham	388	−76
Bl. Circle	395	−43
Brit & Comm	378	−72
Caffyns	473	−112
Fisons	282	−52
Grand Met	444	−75
Guinness	267	−60
Hanson Tr.	116	−28½
ICI	£12½	−1$\frac{5}{16}$
Jaguar	410	−95
KLP Gr.	355	−115
Kwik-Fit Hldgs	182	−42
Lgl & Gen	280	−32
Lucas Inds	604	−95
Morg Grenfell	388	−76
Nat West Bk	523	−135
Pearson	793	−142
Prudential	825	−153
Reed Intl.	415	−95
Reuters B	505	−125½
Rlls Ryce	152½	−31½
Rothmans	405	−59
Ryl Ins.	433	−60
Sun All.	870	−78
Tate & Lyle	756	−72
WPP Gr.	690	−115
Wellcome	330	−59

Prices at 3.00pm, October 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock		Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
38½	22	AAR	s	.50	2.0	16	357	27¾	25½	25½	−2½
32½	17½	AFG	s	.16	.7	8	3711	24¾	21¾	22½	+⅛
30	9⅜	AGS	s			15	1804	18¾	15½	15¾	−⅞
10½	6¾	AMCA					83	8¼	8	8	−1
9⅝	4¼	AM	Intl			34	3070	4¼	d	3¼	3¾
65½	39	AMR				10	11579	41¼	d32	34½	−4½
12¼	8⅛	ARX	s			7	1117	8⅝	d	7⅛	7⅛
73½	34⅜	ASA		2a	3.9		2580	57½	51½	51½	−13
22⅜	6⅞	AVX				26	738	13⅞	12⅛	13	−1½
67	41	AbtLab		1	2.3	16	12212	48½	d40	42⅝	−3⅞
28	22⅜	Abitibi	g				49	22⅛	d20½	20½	−1⅞
16¾	9¾	AcmeC		.40	4.3	18	208	10¼	d	9¼	9¼
10½	6⅛	AcmeE		.32b	3.8	53	71	8⅝	8½	8½	−¼
23⅞	18	AdaEx		3.30g	20.		308	17¼	d16½	16⅞	−1⅞
19½	10	AdmM	s	.24	2.5	7	257	10⅝	d	9	9½
35	13⅞	AdvSys				14	748	24⅝	21	22	−2
24⅞	11⅜	AMD					14438	4½	d	9¾	10⅞	−⅝
56¾	38	AMD	pf	3	8.6		182	36	d33	35	−3
11⅞	5¼	Adobe					257	7½	7¼	7¼	−⅜
20½	14¾	Adob	pf	1.84	11.		108	17¼	17	17	−¾
21⅞	17	Adob	pf	2.40	13		16	18¾	18½	18½	−1⅛
15	6⅝	Advest		.12a	1.8	5	689	8	d	6¾	6¾
68½	50	AetnLf		2.76	5.9	7	11531	53½	d46	47	−3
63½	30⅝	AflPb	s	.32	.7	7	2128	52	45	46	−5¼
25⅞	15¼	Ahmans		.88	5.7	6	11360	17⅛	15¼	15½	+¼
5⅝	2⅞	Aileen				481	3	d	2¾	2⅞	−⅛
53⅞	32⅝	AirPrd		1	2.9	15	3822	38½	34¾	34⅞	−⅜
38	18¼	AirbFrt		.60	4.1	8	348	17⅞	d14½	14½	−7
16½	7⅝	Airgas	n			15	418	10½	9	9	−1¼
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 49

NYSE COMPOSITE PRICES

Continued from Page 48

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19⅞	[illegible]	Orion pr .50	6.9	34	7½	d	6	6	−⅞	
38	[illegible]	OutbdM.64	3.2	15	275	23¾	d20	20	−3½	
26½	[illegible]	OvShip .50	2.6	14	42	19¼	19	19	−¼	
32⅞	[illegible]	OwenCn		5	1078	214	9	11¼	−2	
18⅞	8½	OxfdF s .24	2.7	6	109	9	8⅝	8¾	+¼	
19	12½	Oxford .50	4.4	12	1799	13	d11¼	11¼	−1¼	

P Q

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
45	26¾	PHH	1.08	3.9	12	298	37¾	d28	28	−3⅝
53½	31	PPG s	1.20	4.1	10	16405	33½	d29	29½	−2¾
17⅞	13⅛	PacAS	1.54	12.		40	13⅝	13⅛	13⅝	+¼
27⅝	15	PacGE	1.92	11.	10	10185	24⅛	16¼	17¾	+2
61¼	45¾	PacLtg	3.48	7.1	12	1885	49¼	47⅞	49	+¾
17⅝	6½	PacRes	.10e	1.2	14	106	9¼	d	8⅝	8⅝
27	20½	PacRs pf	2	9.8		17	20¾	d20	20½	
20¼	13⅝	PacSci	.40	3.2	23	239	13⅞	d12½	12½	−1¼
33¾	9	PacTele	1.84	6.0	11	17778	31	25⅝	27⅛	+2¾
39	29	PacTop	2.52	9.1	7	3339	30	d28¾	27⅝	−1⅞
25⅞	9¾	PacoPh			7	461	10½	d	7¾	8¼
39⅛	21½	PainWb	.52	3.0	6	8366	21¾	d13⅝	17⅝	−4⅛
26½	16⅛	PainW pf	1.37	8.6		39	16	d14¾	15½	−¾
6⅝	3⅝	PanAm				15459	3¾	d	3⅛	3½
2¼	1	PanA wt				987	1⅛	1¼	1¼	−⅛
34¾	19⅛	PanECn	2	11.		2825	21¾	d18¼	19	−2
21⅞	6⅝	Panhlt			7	1013	8⅝	d	7⅛	7⅛
27¾	12⅛	Panephs	.16	1.1	16	1022	16¾	14	14¾	−1¼
27⅞	9¾	ParPh s			16	1880	18	14¾	15¾	−1
8¾	3⅝	Pardyn				2864	4½	3⅝	3¾	−¾
24½	15⅛	ParkEl	.16	1.1	12	180	16¾	d14¾	14¾	−2
8⅞	2⅞	ParkDr	.101j	.3		1936	4½	3⅝	3½	−½
49	23¼	ParkHn	.80	2.6	16	3906	34½	29¼	31⅛	−⅜

[illegible]

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
65	38	Xerox	3	5.8	12	11272	59½	d50	52⅛	−4⅛
58¼	52½	Xerox pf	5.45	10.		32	53½	52⅞	53⅝	+⅝
31½	22	XTRA	.64	3.2	16	882	22¼	d19¾	20	−2
28¼	24¾	XTRA pf	1.94	9.2		3	24¼	d21	21	−3¾
33⅞	16⅛	Yorkln			9	997	23⅛	20	21½	−2¼
7¼	2¼	Zapata				1314	3¾	3	3	−½
37	14¾	Zayre	.40	2.5	6	15217	19⅞	d10½	15⅞	+¼
16⅛	11⅛	Zemex	.40	2.8	9	176	14⅝	14¼	14¼	−⅛
33⅝	16½	ZenithE			58	1849	17⅝	d14	14⅜	−5⅜
13½	3½	ZenLab				8273	4⅞	3½	3¾	−1⅛
26½	16¾	ZenNtl	.80	5.0	10	328	17	d16⅞	16⅞	−⅝
20⅝	13⅝	Zero	.36	2.7	13	380	15⅛	d13⅛	13¼	−2⅜
30¾	17⅞	Zumin s	.68	4.1	11	1709	18	d15	16½	−1¼
10⅝	8⅛	Zweig	.65e	8.5		30278	8⅝	d	7⅝	7⅝	−1¼

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

Prices at 3.00pm, October 20

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER

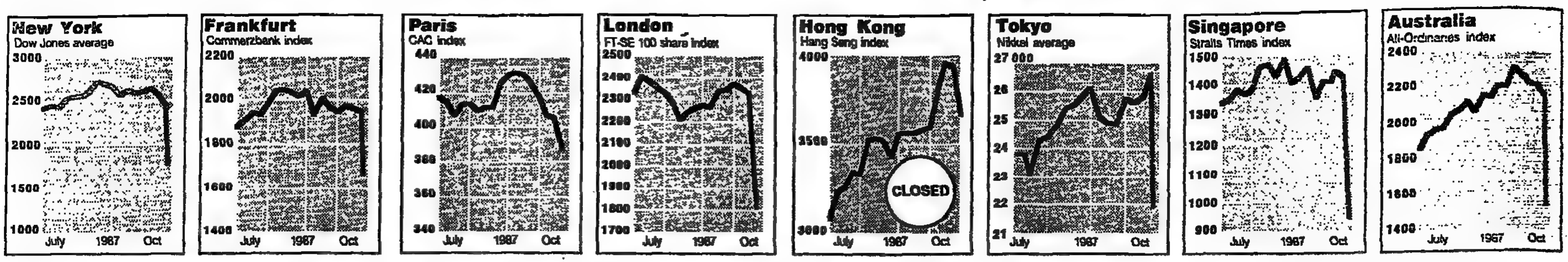
Nasdaq national market, closing prices

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued on Page 47

FINANCIAL TIMES

WORLD STOCK MARKETS



AMERICA

Dow recovers with largest single gain

WALL STREET

WALL STREET staged an extraordinary recovery from Monday's crash, recording its largest gain since World War II on very heavy volume, *write Anatole Kaletsky and James Buchan in New York.*

After a hair-raising day, which saw wild swings caused partly by computerised programme trading, the stock market responded to succour from the US Federal Reserve Board and heavy intervention by companies to prop up their own stock prices.


Mr Alan Greenspan

By the close, the Dow Jones Industrial Average was up 102.27 points at 1841.01 – a gain of 5.88 per cent. Volume was about 603.9m shares, only just short of Monday's record 604.3m shares when the Dow lost 22.6 per cent.

After a highly unusual statement from Mr Alan Greenspan, the Fed's new chairman, reminding the markets that the central banks would stand ready "to serve as a source of liquidity to support the economic and financial system," the bond market experienced one of its sharpest rallies on record, with the Treasury's long bond up as much as five full points just before the New York Stock Exchange opened at 9.30 am.

Encouraged by the bonds' breathtaking performance, the Dow Jones industrial average mounted a spectacular early rebound, gaining 200 points on very heavy trading within the first hour. But, almost as quickly as it had started, the rally fizzled and the stockmarket was back into negative territory by noon. By early afternoon, trading in as many as 60 stocks was suspended, forcing a halt in most futures and options index contracts.

But as the afternoon wore on, there was an increasing flight into the quality of the Dow stocks, with the broader market averages faring much less well. The Dow Transportation average was down 36.62 points to 740.25. In the smaller markets, both the Amex and the Nasdaq indices ended the day down.

The large capitalisation stocks generally found favour while the more leveraged and speculative issues were singled out for another round of pummelling, with many new losses comparable to the ones suffered in Monday's-market wide collapse.

Thus IBM, turned in one of the market's strongest performances, with a gain of $13 to $115. AT&T was also buoyant, rising $3¼ to $27½ while Exxon jumped $5 to $39. American Express was another well-bid blue chip issue, advancing $3¼ to $25.

Among the companies announcing or accelerating buy-backs of stock, USX rose $4 to $25, Ford jumped $4¾ to $73¾, Merrill Lynch rose $3¼ to $28¼. But Shearson Lehman fell $2¾ to $17¾ and Allegis was off $5¾ to $70¾.

Among other blue chips, General Motors rose $5⅛ to $59, General Electric rose $4⅝ to 46¼, Merck fell $4 to $147 while Digital Equipment, after a delayed opening, rose $4⅛ to $134⅛.

The banks fared well thanks to good earnings reports, huge injections of liquidity and statements of support from the Federal Reserve Board. Of the banks reporting results, Citicorp, which also announced a stock repurchase, $7⅛ to $44½. Manufacturers Hanover rose 3⅝ to $30⅜ and Bankers Trust rose $1⅛ to $32.

But the Wall Street investment houses had a mixed time. E. F. Hutton, which was obliged to deny rumours that it was in poor financial health, fell $6⅝ to $18⅞ though Merrill Lynch rose $2⅞ to $27⅞.

Transportation stocks did poorly, with the Dow Transportation index slumping over 70 points at one point, though it picked up by the close. Burlington Northern, which announced a stock buyback, fell $⅝ to $51¾, while among the airlines, AMR was down $3⅜ at $35¾. TWA collapsed $12 to $14 on news that Mr Carl Icahn had dropped his buy-out attempt.

The bond and money markets provided much of the direction throughout the morning, as long and short-term interest rates both came under consistent downward pressure from Federal Reserve open market operations as well as a flight to quality in the US markets and abroad. The Federal Funds rate fell early in the day to 7 per cent from an overnight 7¾ and by lunchtime the Fed had pushed this vital money market rate down several notches further to 6¾ per cent. By the close it was trading at 6¼.

The Treasury's long bond experienced extraordinary volatility, plunging from five points up near the opening to a gain of only one point and then back again, to settle down at 1 pm 4 9/32 points up at 95⅜. At this level the bond yielded 9.374 per cent, representing a fall in long-term interest rates of more than one full percentage point since the worst point the day before. By the end of the day, it was yielding 9.507, for a gain on the day of just under 1½ points at 93 29/32.

CANADA

IN TORONTO, the stock market ignored the early morning gains posted in New York and resumed its sharp downward plunge, tumbling another 152.3 points in the first 15 minutes of trading, *writes David Owen in Toronto.*

By 1pm, the benchmark TSE-300 composite index had extended its losses to 327.8 points at 2,863.58 - a decline of over 20 per cent from last week's close. Volume at 39.5m shares was nearly 40 per cent above even Monday's frenetic levels.

The market portfolio index in Montreal, meanwhile, contracted a further 154.28 points to 1,439.87 after Monday's 167.88-point loss.

Toronto losses were heaviest in the metals and minerals subgroup, which fell 460.7 points to 2,271.79. Industrial products dropped 190.97 to 1,681.81, oil and gas slid 327.30 to 3,190.65, and financial services were off 146.15 at 1,853.54. Order imbalances prompted trading to be halted on Alcan and Echo Bay stocks shortly after noon.

Among mines, American Barrick fell back a steep C$8 to C$18, while Placer Dome slid a further C$4⅛ to C$16½.

In the money markets, widespread uncertainty caused activity to be concentrated heavily in short-term instruments and sparked a perceptible widening of bid-offer spreads.

By mid-morning, traders reported that spreads on one-month treasury bills had doubled to around 10 basis points, with bids quoted at 8.45 per cent and offers at 8.35. Rates have come down from over 9 per cent a week ago, reflecting increased demand.

Alexander Nicoll in London assesses the crisis of confidence among world investors

Markets' vulnerability exposed

INVESTORS, stunned by the sheer size of Wall Street's Monday fall, yesterday began to look with trepidation at the possible longer-term consequences for the world's markets and economies.

Some markets reacted with sharp declines, especially in Asia, which had escaped the brunt of earlier falls. Those that had already fallen a long way this year, such as Italy, did not suffer as much as others. In Hong Kong and Greece, and in some Italian stocks, trading was suspended.

London was buffeted by extraordinarily volatile movements. Normal concepts of what is a big movement in a stock market will have to be adjusted after the huge percentage changes which have been occurring from hour to hour. Frenzied conditions were also seen in international bond markets which saw large, if irregular buying.

Apart from bald fear of where the US markets' unprecedented disorder will lead, two overriding concerns emerged. The first was that the drop in stock prices would hurry the US into a recession which could have a severe impact on other economies.

A global recession could to some extent undermine the strong fundamentals which have lain behind analysts confidence that, if all went well, European markets could recover from their sudden under-valuation.

The second concern was about the health of market players. Rumours swirled about a number of US securities houses, each of which firmly denied that it was in any difficulty. In such circumstances, however, all participants have to look closely at whether the other party to a transaction will be able to meet its obligations. London markets yesterday issued additional calls for margin payments from participants in the futures and options markets, and all were safely met.

Markets did take comfort from the assurance by Mr Alan Greenspan, the Federal Reserve chairman, that the central bank would stand ready to provide liquidity if necessary in order to protect the financial system.


A market maker in decline in London

"It's a crisis of confidence," said one London analyst. "Markets have become detached from reality and from the economic conditions that we have around us."

Assuming conditions do become calmer, the longer-term consequence could be a severe dent in investor confidence. Instead of believing that shares could rally as the economic fundamentals reassert themselves, investors could instead see each attempt at a rally as selling opportunity. Some such opportunistic selling as the market recovered was certainly seen when the London market recovered yesterday.

The week's events have exposed how vulnerable the world's largest markets are to big movements partly as a result of their very openness and liquidity; they have also exposed the illiquidity of some Continental markets where relatively small selling orders cause huge price drops.

But the mood yesterday was of increasing alarm at the consequences of the crash. Whatever the logic of arguments about economic fundamentals, it takes a brave investor to seize a 'buying opportunity.' "I just don't know what to make of these conditions," was one economist's honest and bleak summary.

EUROPE

Frankfurt and Zurich contain falls

THE BIGGEST European bourses struggled to hold on to their ground in heavy, often chaotic trading yesterday. Scandinavian markets continued to dive, *writes our Markets Staff.*

FRANKFURT fell, but less sharply than on Monday in another extended session. Although a midsession rally collapsed, prices stiffened slightly before the close on the stronger dollar and supportive remarks from West German Finance Minister Gerhard Stoltenberg for the Louvre currency accord. The midsession Commerzbank index fell 74.7 to 1,669.4, a drop of 4 per cent.

Banks showed resilience. Deutsche closed down DM35 at DM530, its worst showing this year. Dresdner rebounded from a soft opening to close up DM5 at DM310 and Commerzbank also added DM7.50 to DM259.50.

Daimler and BMW plumbed lows for the year at DM884 and DM594 respectively, falls of DM28 and DM47. VW, though, bounced back up DM8.90 to DM280.90.

Siemens gave up DM15 to DM575, but fellow electrical AEG rose DM15 to DM575. Retailers also had mixed fortunes, Karstadt adding DM8 to DM538, but Horten slipping DM17 to DM205 and Kaufhof falling DM10 to DM480.

The Key Market Monitors have been dropped from today's edition to accommodate more reports on the sharp movements in markets around the world. Market indices, lists of the most active stocks and London's chief price changes can be found on Page 47.

BASF and Hoechst recovered poise in chemicals, adding DM9.40 and DM9.50 in turn to DM29.70 and DM291, but Bayer was another DM9 off at DM304.

ZURICH climbed back from a hectic early fall to close mixed, finding a foothold on the firmer dollar and lower US and UK interest rates.

Banks, though, found little cheer and Union Bank and Credit Suisse both succumbed a further SFr50 and SFr125 in turn to SFr4,250 and SFr2,900.

Foods were among the strongest issues, with Nestle adding SFr700 to SFr9,950 and Jacobs Suchard marking up SFr150 to SFr9,200. Ciba Geigy also picked up SFr50 to SFr3,450.

Insurers were patchy, with Winterthur SFr400 to the good at SFr6,500 and Zurich up SFr350 at SFr6,500. Swiss Re fell SFr2,600 to SFr16,500.

BRUSSELS dipped slightly in busy but calmer trade as institutional buying picked up. Overseas investors remained shy of the market. The cash index closed 20.73 lower at 4,282.69.

Chemical Solvay managed a BFr1,000 rise to BFr11,650 after Monday's 28 per cent plunge, and UCB recovered BFr690 of its loss of more than a fifth to BFr8,900. Petrofina also rebounded BFr675 to BFr10,950.

Brighter holdings saw Reserve make up BFr270 to BFr3,270 and Sofina BFr75 to BFr12,325. Arms group FN, though, plummeted BFr306 to BFr944 on news of big losses.

PARIS firmed modestly after rebounding from fierce early falls in confused trading.

Avionics group Dassault stood out with a FFr70 advance to FFr940, as blue chips led advances. Peugeot rebounded FFr48 to FFr1,300 and electronic Thomson-CSF notched up a FFr85 rise to FFr1,075.

L'Oreal bounded ahead FFr160 to FFr3,280 and La Redoute soared FFr196 to FFr3,147. Elf led oils with a FFr11 rise to FFr295.

AMSTERDAM fell back from a solid midsession recovery to finish easier and off the day's highs on late profit-taking. The CBS all-share index slipped 3.8 to 78.9.

Internationals softened further, with Akzo weakening a further Fl 13 to Fl 129 and KLM dipping a further Fl 3 to Fl 36.50. Philips fell Fl 4.40 to Fl 38, Royal Dutch Fl 18.90 to Fl 205.10 and Unilever Fl 6.50 to Fl 100.50 - all lows for the year.

MILAN declined slightly in jittery trade following an hour's delay to the start of trading. The MIB index lost 4.5 per cent.

Fiat ordinary, privileged and savings shares were suspended as selling pressure immediately sliced 21 per cent off ordinaries leaving them at L9,100, a L1,785 fall. At the delayed close, however, its price was fixed at L10,650.

STOCKHOLM see-sawed violently to a second successive record fall despite a dramatic late attempted rally which more than halved early losses. The Affaersvaerlden index dived 7 per cent to 840.9, a 63.4-point tumble.

MADRID dived in a flood of domestic and overseas selling. The all-share index closed down 17.35 at 285.16, a fall of 5.73 per cent.

OSLO marked its biggest one-day fall in a flurry of nervous selling. The all-share index plunged 75.15 to 317.92, a 19.1 per cent drop.

London suffers further substantial losses

REASSURANCES from the West German and US authorities of support for currency and securities markets brought only temporary relief in London, where share prices suffered another round of substantial losses yesterday, *writes Terry Byland.*

Equities began to slide lower again in late trading as rumours of financial problems on Wall Street circulated in the City dealing rooms.

The stock market ended the day with a loss of a further 12.2 per cent in major indices, bringing a total loss of 21.7 per cent since the end of last week. The FT-SE 100 fell 250.7 to 1,801.6.

British Government bonds, however, advanced strongly as traders sensed that investors sought a safer haven than equities for their money. The UK bond market's concern with international factors helped it brush off disappointing news on UK money supply and bank lending, disclosed at mid-session. However, despite cuts in prime rates by two major US banks, London bond prices closed below the best, with net gains of around 2 points.

The continuing volatility of the London market was displayed by the rapid response to the statements from Mr Alan Greenspan and Mr Gerhard Stoltenberg. London started the day with substantial losses as share traders reacted to the huge setbacks suffered overnight by the US and Japanese markets.

But the mid-session loss of 304 points on FT-SE 100 Index was reduced to 70 at one stage - until London began to flinch anew as Wall Street traced an erratic path.

The big investment institutions remained very wary of committing their funds to a market still clearly volatile and apprehensive.

However, London market analysts remain relatively optimistic towards the UK and other European bourses. London stocks are now selling on around 11.5 times annual earnings, regarded by the institutions as an attractive buying opportunity - if only Wall Street would settle down.

The huge losses of the past two trading sessions have raised concerns for the financial health of firms trading in London. Two US firms were obliged yesterday to deny rumours that they had filed under US bankruptcy laws.

This week's setback has proved the first serious test of the new electronic-style market introduced into London a year ago.


A London dealer takes a breather

The system has performed satisfactorily, although there have been times when market makers have reduced the size of share bargains in which they would deal, or widened their spread between buying and selling quotations.

Gold, diamond shares plunge in Johannesburg

ANY HOPES that the Johannesburg stockmarket would escape the rest of the world's selling panic vanished yesterday, *writes Jim Jones in Johannesburg.*

On Monday, the market's overall index rose 2 per cent to a record 2,804 and the all gold index lifted 5 per cent to 2,429. Just before the market close yesterday, however, 12 per cent had been wiped off the overall index and 9 per cent off gold shares.

Among the worst affected was De Beers, which was hit by a wave of overseas selling on fears that recession could badly damage the diamond market. It plummeted R11.50 to R46.50, while Vaal Reefs dropped R50 to R420 at one stage in the afternoon and Sasol slid R2.50 to R11.

Johannesburg stockbrokers believe the slide will be halted later this week, particularly as there were few signs of institutional selling.

For the present, no one is prepared to forecast any strong advance in the dollar price of gold, but rather brokers believe the price will remain firm as investors turn to the metal as a safe investment haven.

TEL AVIV: Panic selling hit the Tel Aviv Stock Exchange yesterday as angry investors besieged authorities with threatening telephone calls. These included a threat of a bombing unless the exchange was closed and trading halted.

It was the final day for the redemption by the public of US$1.2bn in Government-guaranteed bank shares, present since the market crisis of October 1983.

Some 57 per cent of shares traded yesterday lost over 5 per cent of their value, with a further 40 per cent falling by up to 5 per cent. A representative 25 share index dropped 12 per cent, the biggest one-day fall this year.

DUBLIN: The Dublin Stock Exchange dropped 13.5 per cent at the close of official trading yesterday after falling a record 25 per cent on Monday.

Some blue chips recovered by yesterday afternoon, however.

KUALA LUMPUR: The Kuala Lumpur stock market suffered its worst ever fall yesterday, plunging 15.6 per cent after dropping 12.5 per cent on Monday.

Blue chips fell again, with favourites Malaysian International Shipping losing 1.95 ringgit to 5.95 ringgit and Malaysian Airlines 40 cents to 4.8 ringgit.

BANGKOK: Despite being mostly a local market, Thailand's stock exchange plummeted in line with Wall Street. The SET 100-share index recorded its sharpest single-day fall to end down 36.64 at 422.37.

Tidal wave of selling finally swamps Tokyo

TOKYO

THE TOKYO stock market plunged yesterday as the waves of selling, which first hit New York last week, finally caught up with Japan, *writes Stefan Wagstyl in Tokyo.*

The Nikkei index fell by a record 3,836.48 points or 14.9 per cent to 21,910.08, wiping Y57.4 trillion (million million) off the capitalisation of the world's largest market.

The market was paralysed for much of the day as traders were unable to find buyers to match the huge number of sellers. Even a rescue bid by the Big Four Japanese securities companies, Nomura, Daiwa, Nikko and Yamaichi, failed to halt the slide.

Acting in reponse to an informal request from the Japanese Ministry of Finance, the four companies bought shares on their own account, but prices continued to fall until the close.

All eyes were then on Wall Street in the belief that a further fall in New York would force Tokyo stocks lower in a psychological reaction.

The Long Term Credit Bank, one of the largest institutional investors, said: "Tokyo is badly affected by New York. Everyone is watching what happens there."

Mr Junichi Nishiwaki, an economist at Mitsubishi Bank, said: "The fundamentals for the Japanese economy are good. What is happening is simply a worldwide reflection of Wall Street."

Yesterday's near 15 per cent fall in the Nikkei dwarfed previous records. The market fell 10 per cent on the day Soviet leader Josef Stalin died in 1953 and 7.68 per cent in 1971 when US President Richard Nixon announced the end of fixed exchange rates.

However, the Japanese market has fallen far less than Wall Street. It is just under 18 per cent off its all-time peak - reached on Wednesday - whereas New York has seen a 37 per cent fall from its peak.

Foreign investors and Japanese private individuals were said by traders to be the most keen to sell yesterday. Large institutional investors said they were prepared to wait and refrain from selling.

The market was in trouble as soon as the scale of Monday's decline on Wall Street was apparent. There was no longer any talk, as on Monday, of the resilience of Tokyo.

By midday, only some 10 per cent of leading stocks had been traded at all. Volume rose in the afternoon thanks to the big brokers' operation, but even by the close nearly one third of the top stocks were untraded.

After the close, the Tokyo Stock Exchange acted to ease credit restrictions, , reducing from today the amount of collateral needed to borrow money for buying securities.

The bond market offered hard-pressed brokers some relief. Prices rose as investors decided that recent fears about inflation had been overdone, especially in the light of the fall in equities. The yield on the benchmark 89th issue 5.1 per cent government bond was 5.71 per cent at the close - down 0.215 per cent.

● The high-tech sector suffered badly in what brokers called black Tuesday trading, *Shigeo Nishiwaki of Jiji Press adds.*

NEC, Matsushita Electric Industrial and Toyota Motors tumbled a maximum Y400 to Y1,910, Y2,070 and Y1,700 respectively. Sony, TDK and Fuji Photo Film slid a maximum Y500 each to Y4,450, Y4,410 and Y3,570.

Elsewhere, Sumitomo Bank fell a maximum Y500 to Y3,170, while Nippon Telegraph and Telephone (NTT) closed Y250,000 down at Y2.65m.

AUSTRALIA

IN AUSTRALIA, the record books were rewritten, *writes Chris Sherwell in Sydney.* On the back of a $7 fall in the bullion price, the stock market's gold index crashed 1,036.6, or 28.2 per cent, to 2,638.1, putting paid to hopes of buoyancy from that quarter.

On the futures market, the trends were still more pronounced. December share price index futures opened at 1,500, down 506 from Monday's close of 2,006. The contract reached a low of 1,230 before clawing back to 1,280, down 676 points and still at a heavy discount to the physical market.

At the finish the widely-watched All-Ordinaries index of 325 stocks, covering all sectors, had plummeted 515.6 points, or 24.9 per cent, to 1,549.8. Trading volume was almost 185m shares, with a value in excess of A$500m.

In neighbouring New Zealand, the story was grimly repeated. The Barclays index recorded its biggest one-day fall in history, slumping 504.75 to 2,925.26 in frantic trading. The previous record fall was 174.2, set in May.

Brierley Investments finished at NZ$3.70, down 73 cents, having traded as low as NZ$2.60. Of the big manufacturers, Fletcher Challenge was down 95 cents to NZ$5.15, while Goodman Fielder was off 60 cents at NZ$5.00.

Some Australian shares suffered worse fates, losing almost half their value. As the bull turned to bear almost overnight, personal fortunes were slashed.

Mr Rupert Murdoch's News Corporation finished yesterday at A$13.00, down A$7.00, having hit A$11.50 in the first hour of trading. Mr Robert Holmes a Court's Bell Group fell A$3.90 to A$5.50.

BHP, Australia's biggest company, was the most heavily traded - with volume hitting A$83m in Sydney and Melbourne alone - and finished A$1.80 lower at A$8.10.

HONG KONG

AN EMERGENCY meeting of Hong Kong's Stock Exchange Council suspended share trading yesterday, ruling the market would stay closed until at least next Monday, *writes David Dodwell in Hong Kong.* Mr Ronald Li, the exchange's chairman, said the move was intended to protect investors and to enable stockbrokers to settle their backlog of contracts.

Trading in Hang Seng index futures contracts was also suspended until Monday, as were dealings in about half of the territory's 250 unit trusts.

The exchange's dawn initiative pre-empted what many stockbrokers said would have been a bankrupting blitz of selling orders.

They said that after Wall Street's slump on Monday, they had been braced for a fall of 1,000 points or more in the Hang Seng index - amounting to about one third of the market's capitalisation. The index had already lost 11 per cent of its value on Monday, with an unprecedented 420 point fall to 3,362.4.

SINGAPORE

THE worldwide frenzy of selling drove Singapore lower again, surpassing Monday's record drop, to leave the Straits Times industrial index at 996.82, down 226.

Blue chips and quality issues felt the brunt of selling, with Singapore Airlines off S$3.00 at S$9.30 on a turnover of 6.8m shares traded. DBS lost S$5.00 to S$9.00 and UIC gave up 65 cents to S$2.21.

The market will be closed today for a religious festival.

SECTION III

FINANCIAL TIMES SURVEY

The global market is a reality, though it remains in its infancy. Despite its rapid growth, **Alexander Nicoll** identifies problems about settlement, an intense debate about issuing techniques, and anxiety over the pressures being placed on the new breed of trader.

CONTENTS

Everything to play for

AFTER THE fanfare, the toll. Global equities have been trumpeted for two years now as the new era in securities markets. Great strides have been made: massive increases in the amounts of equities distributed and traded outside their home markets, as well as in the resources devoted around the world to research in foreign shares.

It was easy to conjure a vision of the future. Markets were linked instantly by modern communications. Companies aspiring to be global in their operations would raise capital from a global pool. By the same token, investors would select stocks from a vastly expanded international range. In the middle would be global investment banks, able to provide all necessary services in all markets, trading around the clock.

The reality, of course, is not like that. In a sense, the global equities market could be said not really to exist at all. It remains essentially an agglomeration of national markets, and depends on their individual strengths. While it is clear that equity markets have taken important steps towards internationalisation, it is also clear that the new market is still in its infancy.

Even though large amounts of money have been raised and invested internationally, and investment banks have made considerable investments - especially in London and Tokyo - to back their bet on international growth, much of what is being done remains experimental. There have been some salutary lessons for issuers, investors, and investment banks.

Though Eurobonds have served for many as the model of a transnational market, they were essentially created out of a void. The market could develop its own customs. The international equity market, by contrast, is an accretion of established domestic share markets with well-entrenched traditions and clubs.

This means that its development, while potentially huge, given the much greater size of equities than bond markets, is not at all easy. It entails a painstaking approach to differing national cultures, prejudices and methods. It means coping with thorny problems of regulation and settlement in unfamiliar parts of the world. It means extraordinary new pressures on people, many of whom are very young.

Despite this cautionary note, something has clearly happened in the past few years.

Investment banks have enormously expanded their international equity capabilities. As an example, when the UK merchant bank Baring Brothers bought the Far Eastern interests of stockbrokers Henderson Crosthwaite in June 1984, the team numbered just 15 people. As Baring Securities, the company now has 365 staff in London, New York, Los Angeles, Tokyo, Hong Kong, Seoul, Singapore and Frankfurt - specialising mainly in Far Eastern stocks and equity warrants, but now expanding into Europe.

Mr Andrew Large, who heads Swiss Bank Corporation International, says: "Five years ago we said to ourselves: we know what has happened in the debt markets, and we believe there could be similar developments in equities."

The result was involvement in early "Euro-equity" issues - the term initially applied to distribution of equities through the Eurobond syndication route. Then SBCI purchased Savory Milln, once a low-ranked UK stockbroker which had itself developed into an important market maker in European stocks. SBCI also captured a very large team from W I Carr for Far Eastern stocks. Its front-office equities staff around the world outside Switzerland now numbers 400 people, compared with 50 at the end of 1985.

Many other firms have similarly switched Eurobond talent into equities, or built new international equity teams, both on the primary issuing and secondary trading. Among prominent Eurobond firms now with a heavy emphasis on equity - including the rapidly-growing equity-linked bond sector - are Credit Suisse First Boston, Merrill Lynch, Morgan Stanley, Goldman Sachs, Deutsche Bank, S G Warburg and Shearson Lehman. Japanese firms have also made a strong push, particularly in issuance of bonds with equity warrants.

The figures for market growth also speak for themselves: new international issues of equity and equity-linked debt totalled $36bn in the first nine months of 1987, more than three times the total for 1985. A rough estimate by Salomon Brothers puts cross-border trading volume at $750bn last year, compared with $400bn in 1985.

The move into international equities results from a confluence of many factors. Bond markets, and in particular the Eurobond market, appear to have passed their heyday for the time being as the long decline in interest rates was at first halted and then reversed, and as the falling dollar has heightened currency worries for many offshore investors.

The Eurobond market was, in any case, increasingly difficult to make money out of. It has become grossly overcrowded as banks of many nationalities have felt it necessary to establish capital markets arms to service their corporate customers.

Equity markets, meanwhile, have enjoyed a long bull phase, which is still continuing. Increasingly performance-conscious investment managers have looked abroad with the aim both of improving their performance and diversifying their risks. US pension funds have devoted a still relatively small but growing proportion of their portfolios to foreign equities, and UK pension funds - always much larger investors abroad - have also stepped up their international activitities. A range of new indices has sprung up to help them measure their performance.

For issuers, the advantages of raising equity internationally are in general rather less tangible. There are some solid reasons, to be sure: Japanese companies, for example, have been able to raise money at virtually negative interest rates, by issuing bonds with equity warrants and swapping the proceeds into yen.

In addition, many European companies have outgrown their domestic stock markets.

The argument for many multinational companies is that their businesses have become global, so their shareholder structure should as well. This gives them a name which will help them to expand abroad through acquisitions, borrow abroad more easily, and also act as a marketing weapon.

Though there have been a number of successful international issues - including some of the British and French privatisations - there have also been some debacles which, given the youth of the market, still serve as oft-quoted lessons. British Telecom shares distributed in the US flowed back to the UK almost immediately. The largest offering ever attempted, a $2bn stake in Fiat sold by Libya last year, foundered because it was too large, was done too quickly, provoked bitter arguments within the market, was plagued by fears about Italian settlement problems, and triggered a sharp fall in the share price.

These and other lower-profile problems with new issues have highlighted the needs of the primary market. Sponsors must ensure that the story of the issuing company is told properly; they must find investors that are likely to be firm holders - the quick dumping of Eurobonds by co-managing banks back to the lead manager is not acceptable with equities. Though some sales by investors may be inevitable, investment houses making markets must have a pool of other investors to whom they can sell securities, so that flowback into the domestic market is avoided. Investors must be sure of a liquid secondary market. Above all, perhaps, the particular characteristics of the issuing company and its domestic market, including regulation and settlement, must be closely attended to.

The many issuing techniques being tried - the subject of intense debate in the market - have not yet fully met these needs.

Many questions remain. British investing institutions, though among the most active investors in foreign stocks, object to their holdings in British companies being diluted by issues abroad.

Will the global markets disappear in a puff of smoke when markets fall? There is bound to be a contraction of activity. But most houses believe that, if they have developed a strong enough presence in national markets by that time, internationalisation will be durable.

Internationalisation, coupled with new technology, brings into question the very nature of a stock exchange. They have brought a new competitive atmosphere between stock exchanges - with London, for example, turning over considerable proportions of foreign shares. A recent deal on automated futures and options trading between Reuters and the Chicago Mercantile Exchange has sent a shudder through all established exchanges around the world.

Regulation, especially in the UK, poses threats of which the full dimension is not yet known.

And there are human costs. Many dealers are very young, with no experience of falling markets. Mr Terry Hurley, of Merrill Lynch, in a recent speech to a conference organised by Westminster Management Consultants, said his market makers were usually in by 7am and got home at about 7pm, and were often called in the middle of the night. "We do not have any of them complaining, because if they complain we will get another market maker. That is the demand of international twenty-four hour trading. It is a good thing for the executives and the public relations people to talk about twenty-four hour trading, but entirely different to go ahead and do it."

Why equities? **Martin Wolf** tests the market's worldwide strength

If today's prices are fair, any further gains may be limited

ARE STOCK markets too high? For some time investors have been asking themselves this question and, with the exception of investments in just a few markets, have regretted it whenever they have decided that they are.

Like any investment, one in the index or any broad range of equities can be assessed in terms of the present value, at expected real interest rates, of an anticipated stream of after-tax income. Furthermore, under plausible assumptions the dividend yield can be ignored as long as internally reinvested funds earn at least as much as funds invested directly in the index.

On this basis, one can ask the following two questions about equity prices:

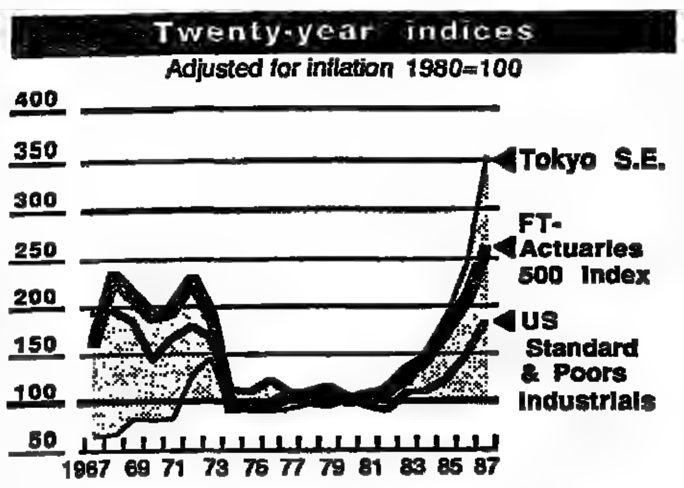
- With what assumptions about future profits and real rates of interest are prices at any time consistent?
- Do those assumptions make any sense?

Current equity prices in real terms (that is deflated by consumer price indices) in the markets of the US, West Germany, France, and the UK are not now significantly above the peak level of 20 years ago in real terms.

Japan is different. The previous real peak of the Tokyo market was achieved in early 1973. That level was surpassed in the second quarter of 1985, while the present level is more than double that of 1973 level.

What makes present stock prices look so high is the inflation of the 1970s, which has raised nominal values and, more important, the collapses that occurred in the real prices of equities in most major markets during or shortly after the two oil shocks.

Thus, looking at the 1965-87 period, the real price of equities in New York during 1987 has risen by 130 per cent above the low, which occurred in 1982; for the United Kingdom the current real price is some 430 per cent above the low of late-1974; for West Germany the real rise was 136 per cent between the trough in 1982 and a peak in the second quarter of 1986; finally, for France the current level is some 220 per cent above the trough, which also occurred in 1982.



Japan is again a little exceptional. The lowest real price of the Tokyo stock market in the 1965-87 period occurred in 1965. As might be expected of so dynamic an economy, the cyclical trough during the first oil shock of October 1974 was well above the real level in 1965, but the real level in 1987 was still 377 per cent higher than in 1974.

What has driven these recoveries in the share index above the troughs? By comparison with the 1970s the real rate of interest has risen everywhere. Other things equal, this should have lowered stock prices not raised them. It follows that the change justifying the rise should have been in expected profits.

According to OECD statistics, for UK industry the net operating surplus on the capital stock (at replacement cost) was 4.3 per cent in 1975 and 14.3 per cent in 1985, while for non-financial corporations it rose from 3.3 per cent to 10.4 per cent over the same period. These rises have brought the UK back towards (in some cases above) the OECD norms.

In the cases of Japan, West Germany and France the rates of return on industrial capital in the 1980s appear not to have been significantly higher than in the mid-1970s (and lower in the case of France). Meanwhile, the profitability of US manufacturing was much lower in the early 1980s than in the 1970s.

Measured profits do not explain much of the 1980s rise, it appears. More important perhaps are unmeasured changes in the quality of reported profits and, especially, of earnings after tax and interest as the distorting effect of inflation has diminished.

Nevertheless, equity prices appear to have risen by more than earnings during the 1980s, even allowing for the improvement in their quality. The ratio of price to earnings (after tax and interest) on industrial shares in the US in 1979 was at a cyclical trough of 7.7, while in 1987 it has reached 19.7.

For the UK the ratio was 5.6 in 1980, but has reached 17.3 in 1987. For Japan it was 17.4 in 1980, while it has reached 58.5 in 1987. For West Germany it was 8.1 in 1980, but has reached 14.9 in late 1987; while, in the case of France, the rise was from 5.5 in 1981 to a peak of 21.1 in 1987.

The relation between the price of equities and the contemporaneous earnings of the underlying assets can, of course, always be explained away in terms of implicit expectations about future profits. For example, a price earnings ratio of 5.6 in the UK in 1980, or 7.7 in the US in 1979, could have been fully rational, provided one believed that such earnings would cease altogether after six years or so.

In short, the rational basis for the lowest prices of equities in the past 20 years would have been capitalism's imminent demise. It is strange that the markets, but not the Marxists, appear to have believed only a few years ago that capitalism was about to go out with a whimper.

What of the expectations underlying current, much higher prices?

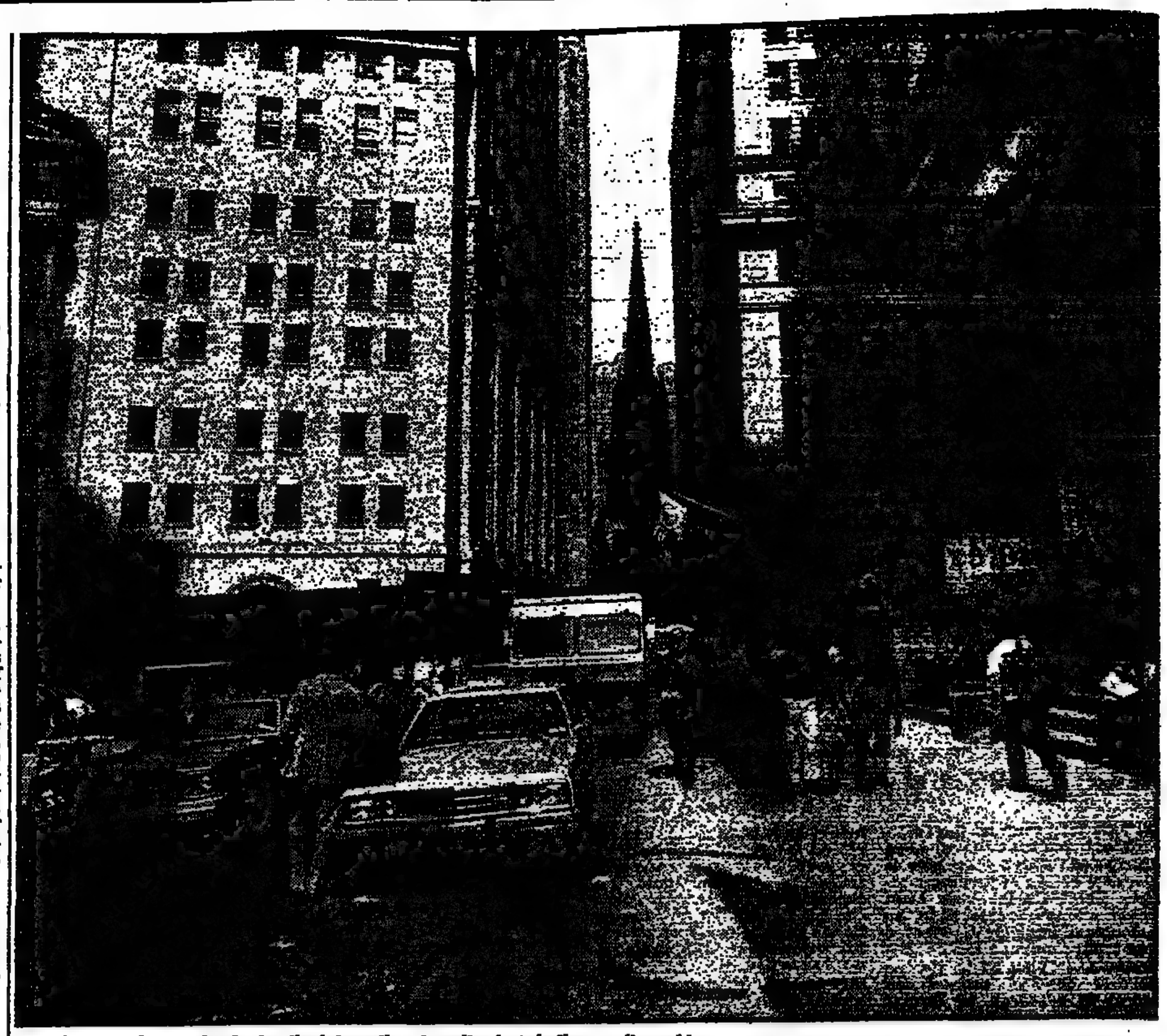
Take the UK as an example. The current price/earnings ratio implies a return after taxes on an investment in the index of about 6 per cent, while, the yield on index-linked gilts is about 4 per cent. The same point applies to other markets, except Japan, whose prices do look peculiar against the fundamentals. In all the major markets, apart from Japan, the real after-tax return will be 5 per cent a year or more, provided earnings maintain their real value in the long term.

Another way of putting the point is that it is only in the last two years or so that stock markets have been valuing the corporate sector at, or a little above, the replacement cost of the underlying assets. This, too, should be a normal condition.

Accordingly, if one were prepared to buy the index in most of the major markets and go away for 20 or 30 years or so, one would obtain a perfectly reasonable after-tax return compared with obvious alternatives, provided earnings were at least maintained in real terms.

The warning is that, if equities are now fairly priced, the opportunity for further substantial real gains may also be limited. At the same time, a long term investment is merely one whose value changes quickly in the short term view.

The experience of the past 20 years is of oscillation between what looks like a sensible long term view and manic depression. The very fact that an economist concludes that prices are again reasonable might lead the shrewder observer to expect another bout of depression.



Wall Street no longer dominates the international equity stage in the way it used to

Richard Lambert examines the growth of cross-border investment

Deregulation opens doors

EQUITY INVESTORS have had international horizons since the earliest days. In the first decades of the 19th century, US securities accounted for a large portion of trading on the London Stock Exchange. And by 1906, US investors were reckoned to hold roughly $800m of foreign securities.

But although the international equity market has existed for many years, the speed of its growth in the 1980's is unique. In the words of a recent study by the US Securities and Exchange Commission: "Vast amounts of capital are now being raised internationally; the world's economies are more interdependent; and economic, technological and regulatory changes are altering the international financial landscape in an unprecedented manner."

According to an analysis by Salomon Brothers, international equity trading in the secondary market reached a gross figure of almost $750bn in 1986. This was an increase of around 80 per cent from the firm's estimate of $400bn for 1985. There has been a dramatic - and probably lasting - change in the long term trendline.

One explanation is to be found in the pattern of deregulation around the world, itself in part a response to the development of large current account imbalances among the major industrialised countries. Japan has liberalised its controls on cross-border investments by, among other things, allowing certain financial institutions such as credit associations and agricultural corporations to buy foreign securities. Other countries have dismantled long established systems of foreign exchange controls.

The most notable example is the UK. Since the abolition of exchange controls in 1979, foreign investments of the British pension funds had risen nearly sevenfold to nearly $57bn by the end of 1986.

As well as opening up a path for domestic investment into foreign markets, a number of major financial centres have removed barriers to foreign competition within their own home base. In the US and the UK, and increasingly in continental Europe and the Far East, domestic cartels within the securities industry have been broken up; entry barriers have been lowered or removed altogether; the cost of transacting business has fallen. Much greater foreign participation in local markets has accelerated the process of internationalisation in the securities markets.

The doors having been opened, customers of the international financial services industry showed that they were willing and able to walk right through. Bond issuers and buyers led the way. In 1986, the Securities Industry Association of New York reckoned that foreign purchases of US private and public sector bonds reached $67.5bn net. This dwarfed the figure of under $19bn for US equities. But equities are picking up fast. A year earlier, share purchases came to less than $5bn, compared with $69bn for bonds.

Issuers of debt and equity have grown used to seeking out the cheapest source of capital on an international scale. Similarly, investors have had every reason to diversify their portfolios on a worldwide basis.

For one thing, Wall Street no longer dominates the international equity stage in the way that it used to. The growing maturity of other financial centres, coupled with the weakness of the US dollar, has challenged its position in the league table.

Ten years ago, the US represented well over half of the combined capitalisation of the world's equity markets. By the summer of 1986, it was down to around 45 per cent as measured by the FT-Actuaries World Indices in dollar terms, and over the next 12 months that proportion fell back further to under 36 per cent - at which point, it was actually a little smaller than the Japanese market.

Since then, the US has climbed back to the number one slot. But investors can no longer afford to limit their world to Wall Street. For one thing, pension fund managers are required either by law or their trustees to diversify their risks on a prudential basis - which means they cannot close their minds to equities representing well over half of the world's capitalisation.

For another, the returns available to international investors have looked exceptionally attractive, especially when calculated in terms of depreciating US dollars. According to calculations by Goldman Sachs based on the FT-Actuaries World Indices, a US equity investor would have done five times better last year by placing his funds in Tokyo rather than in Wall Street.

The growth in international portfolio investment has been driven in part by the institutionalisation of personal sector savings. Institutions are more likely to be concerned with broad risk diversification than are individuals, and they often have easier access to overseas markets. Foreign investment by US private sector pension funds increased from an estimated $3.3bn in 1980 to around $45bn in 1986, at which point they still represented only 4 per cent of total assets.

For comparison, the foreign holdings of British pension funds amounted to 20 per cent of total assets at the end of last year.

Developments in technology have also played an important part in broadening the world's equity markets. Again, there is nothing new about this. The opening of the Atlantic cable in 1866 greatly improved international arbitrage between London and New York, as communication times between the two centres were cut back from several days to a matter of minutes. So today, information costs are falling steeply, as are the expenses of transacting business in a distant marketplace.

This is important, because, while investors are buying record levels of foreign equities, they are still doing so mainly in the home market for the equity in question. In this respect, the market is much less mature than the global market in bonds.

Although this may well remain the case for the foreseeable future, a global market in equities is beginning to establish itself. Euroequity offerings of common and preferred stock amounted to $11.8bn in 1986, compared with only about $200m only three years earlier. Stock exchanges are starting to set up electronic links with foreign centres - between the US and Canada, for instance. And business in foreign equity issues is expanding rapidly in many centres.

In Toyko, trading in foreign shares amounted to 185m shares in the first six months of 1986. This compares with an annual average of less than 2m between 1973 and 1984. In London, trading in foreign shares has climbed to over $500m per day, well over 10 times the levels that were typical before Big Bang.

Although the trend towards a global market in equities has undoubtedly been accelerated by the world wide bull market, most of the developments which have made it possible are not likely to be reversed. Regulators, investors, and issuers of equity still have to come to terms with this fundamental change.

London: the International Stock Exchange

The heart of the world game

THE LONDON Stock Exchange does not like to be called that. Its real name, nowadays, is the International Stock Exchange of the United Kingdom and the Republic of Ireland. When a grouping of international securities houses effectively took control of the exchange in 1986, the name was one of the key points in the negotiations.

This underlines their aim that London, and in particular the quotation system of the exchange, should be the hub of the global stock market, at least for the European time zone.

International securities houses have a lot riding on it. They have invested heavily in high-tech dealing rooms and high-cost staff in support of London's remaining one of the three legs of a global operation (the others being New York and Tokyo).

They focused their attention on the Stock Exchange, because it could provide a regulatory framework and infrastructure for what was a disorganised, fragmented market in international equities. It already had a nascent quotation system for international shares, Seaq International.

Progress has been made with the growth of Seaq International. The number of non-UK shares quoted on the system has increased to 640, of which prices for about 200 are firm - that is, market makers are committed to dealing at them for the specified size. There are 47 market makers, some of which are not yet members of the Stock Exchange. More are about to be hooked up, including two firms outside the UK - representing an important new stage in the system's development.

In addition, there are the beginnings of a trade reporting system, and market makers have agreed among themselves on setting some basic trading rules. In addition, the exchange is about to start options on three French shares quoted on Seaq in direct competition with the Paris bourse.

The aim is to introduce an entirely new version of Seaq International which will have vastly expanded capability for stocks and market makers, as well as more sophisticated methods, for example for handling different currencies.

Reported volume of European shares in London is often 50 per cent of reported volume in those share's domestic markets. Mr Alan Nash, of Paine Webber, chairman of the exchange's *foreign equity markets committee*, says the exchange is not stealing volume from other markets but is expanding overall trading volume.

Nevertheless, continental bourses have good reason to be concerned. And there is also other competition.

The Stock Exchange and Reuters are both anxious to play down the widely reported belief that they are locked in mortal combat over international equities. Reuters, which does not want to be seen as an exchange because that would have regulatory implications, emphasises that it is simply an information vendor competing with Topic, the Stock Exchange's news distribution system, rather than Seaq, the quotation system.

It also says that it is its policy to develop through cooperation with established exchanges rather than through confrontation. Instinet, a Reuters subsidiary which operates an automated trading system, has joined the London exchange as well as all the US exchanges except the New York Stock Exchange. Reuters is in talks with the London exchange about extending automated trading through Instinet to UK shares.

However, Reuters may be seen as a threat to the Stock Exchange because - by agreement with the Exchange - its subscribers can choose to put prices directly on to Reuters screens rather than routing them through Seaq.

The exchange charges fees for Seaq which are passed on to those who see Seaq prices through vendors such as Reuters.

In the longer run, firms putting prices directly into Reuters (or some other system) - as they do in the foreign exchange market even though rates there are only indicative, not firm - could risk destroying the cohesiveness of an exchange and make more poignant the question of what exactly a stock exchange is now that modern quotation systems have been developed.

Alexander Nicoll

US exchanges, amid fierce competition with each other, are also seeking to expand abroad through links with foreign markets

Aiming to be both liquid and transparent

THE WORLD'S largest securities market, into which Treasury figures show foreign investors are now ploughing money at the rate of $20bn or more a year, has in recent months been demonstrating that it retains the flexibility to cater both to their needs and those of US and overseas companies seeking Wall Street funds.

After a damaging series of insider trading revelations, market regulators, as well as investment industry operators, are working to restore the image of the US equity markets as not only liquid but transparent.

While this has brought closer policing of the way brokerages go about their business, energetic attempts are being made to promote the US as a place to raise capital. Foremost among these was the decision by the Securities and Exchange Commission in June allowing listing standards to be based, in some respects at least, on home country practices.

This means that foreign companies are no longer denied a US quotation if they choose at home to operate protective classes of shares or disdain the idea of joining the quarterly reporting treadmill.

At a time when domestic new listings are running more than 50 per cent ahead of last year's inflow, the New York Stock Exchange, the Nasdaq over-the-counter market and the various smaller regional and specialist markets are also competing to offer products and services geared to a market in equities which would be defined less by national boundaries than by ease of trading.

The SEC, in an August report to Congress on internationalisation of the securities markets, expressed the worry that "although US disclosure regulations ensure investor protection, their extra-territorial applications may discourage some foreign investors and move trading offshore, adversely impacting the ability of US markets to compete with others."

The document, which described the Eurobond market as a model of an integrated multinational market, came as another indicator of an attitude on the part of the Washington regulatory officials more open to change.

The trend to globalised equity trading has already given birth to a number of links which, for the first time, directly connect US stock exchanges with counterparts abroad. The most ambitious of these has been the arrangement between the National Association of Securities Dealers and the London Stock Exchange, which gives mutual on-screen access to the top tier of around 300 quotations in each market.

Net purchases of U S equities ($m)

Country	First Quarter 1987	Second Quarter 1987
EUROPE	4,682	3,174
Belgium–Luxembourg	180	130
France	1,242	562
Germany	97	(138)
Netherlands	213	476
Switzerland	379	451
United Kingdom	2,419	1,527
Canada	327	62
LATIN AMERICA & CARIBBEAN	1,011	650
Bermuda	(15)	(36)
Netherlands Antilles	491	(2)
ASIA	3,616	4,390
Hong Kong	98	173
Japan	3,495	4,098
"Other Asia" (a)	(270)	(95)
TOTAL ALL COUNTRIES	9,833	8,592

Source: SIA
Research Associate: Rivka Nachoma
(a) Countries included are: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, The United Arab Emirates.

For the most part, though, relationships remain in their early stages, narrow in their immediate ambitions, and not all living up to their initial promise. Foreign connections have come largely in areas derivative from, rather than centrally representative of, US equity dealings. The NYSE, host this month to the annual gathering of the 43-strong International Federation of Stock Exchanges, has heard many proposals which offer the Big Board foreign ventures, but none has been taken up.

Ms Sandra Jaffee, in charge of international business at the exchange, says: "If we step back and look today at what linkages are doing, they are clearly in their infancy."

Already between 12 and 15 per cent of its business comes from outside the US, a high enough level to allow its authorities to remain unconvinced that a formal link would meet a large customer need.

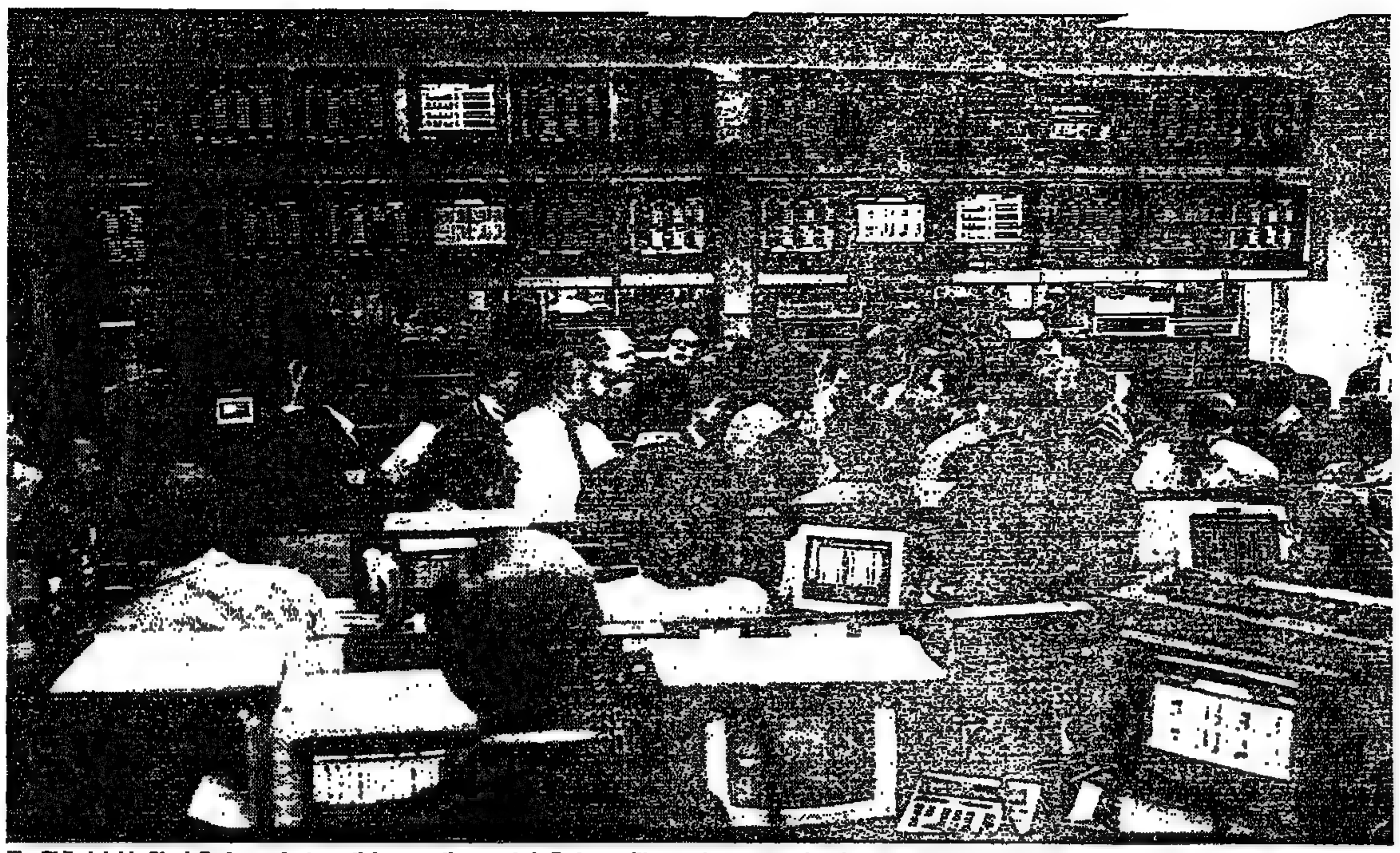
One thing the NYSE has done is to open half an hour earlier each day, giving traders in the European time zone greater access. That might sound less than dynamic, but "when you talk about getting an entire industry up earlier in the morning, that's quite an endeavour."

Elsewhere, the Philadelphia Stock Exchange last month became the country's first securities market to extend trading hours into the evening, but this is confined to currency futures and options where Chicago's non-equity exchanges also open to allow a Tokyo overlap.

The American Stock Exchange, in August, joined with the European Options Exchange in Amsterdam to offer options on its US stock indices. It also has an automated hook-up with the Toronto Stock Exchange, which is designed to meld cross-border trading in about 40 Canadian stocks. Response to that system has been patchy.

Mr Kenneth Leibler, the Amex president, cautions: "We are looking for niches rather than being the first one to introduce around-the-world, 24 hour a day trading."

The attitude is one generally shared among US securities administrators.



The Philadelphia Stock Exchange last month became the country's first securities market to extend trading hours into the evening — Terry Kirk

The link established 18 months ago between the Nasdaq and London markets has exceeded the expectations of Mr Gordon Macklin, who as the NASD's long-serving president was instrumental in setting it up.

Big Bang has opened the way to a pilot clearing and settlement system, which the two sides are now discussing bringing into fuller operation, along with an extension in the number of stocks available on the system.

Mr Macklin, now co-chief executive of Hambrecht & Quist, a San Fransisco broking firm, says the initial arrangement was modest compared with the devleopments which remain possible. "We wanted to establish the fact that our systems are indeed compatible. We wanted to see whether there was investor interest. That has now been done."

As the dealing process itself still takes place by telephone, evidence of activity levels is anecdotal, but he adds that the link is certainly bringing more UK institutional business to his own firm. For the future of automated links in general, the immediate is in this case the least predictable. "The further out you look, the clearer the picture you can draw. Five years from now, even with the current state of technology, it's inevitable that more and more volume will be done through interfaced compatible systems."

The New York Stock Exchange will not retain its low profile much longer, Mr Macklin believes. "I think the NYSE will be a major player. I would be astonished to learn that it was not actively at work developing an internationally compatible system. Go to Tokyo, where there is a very active trading floor, but downstairs a very sophisticated automated system handling prices. The NYSE has one in its basement at the moment for bond trading."

For the moment, the NYSE says it is keenest on ensuring a wide foreign distribution of its market data. In the other direction, it lists in American depository form some 65 non-US companies, a number which it expects will grow significantly now the SEC has eased listing requirements.

According to Mr David Domijan, vice-president in charge of listings: "When one talked to European business leaders there was a real feeling that quarterly reporting exacerbates short-term management. The problem was not just filling out forms."

Swiss and West German companies remain absent, because of SEC problems with the way they value reserves and assets - the next hurdle the NYSE will attempt to clear, starting by meeting business leaders in Frankfurt in early November.

Most US institutions still prefer to have foreign shares held as ADRs, rather than bought directly on exchanges abroad. A survey of fund managers published last month by Broadgate Consultants, an offshoot of Hoare Govett, showed 56 per cent favourably influenced if ADRs in a company were available, with the proportion rising sharply for operators of medium and smaller sized portfolios.

Quality of disclosure was rated even above currency risk in determining investment choice - and continental Europe was singled out as having the poorest accounting standards. Next month's NYSE meeting in Frankfurt may be the first of many.

Gordon Cramb

It's a year since Big Bang: **Clive Wolman** examines the fall-out

Still room for niche operators

THE FIRST year of the UK's newly deregulated equity markets, since last October's Big Bang, has been an unexpected success, not only for the customers, but also for nearly all the "producers".

Lurking beneath the surface of the securities firms, however, are a mass of management problems which have been overlooked or suppressed as a result of the boom fuelled by the 50 per cent rise in UK share prices in the nine months since Big Bang.

Although the new market has taken sufficient shape to end the chronic uncertainty that made planning so difficult before Big Bang, few of the questions about the future configuration of the UK securities industry can yet be answered.

The average rate of commissions on equities for institutional investors has been cut from 0.43 per cent pre-Big Bang to about 0.25 per cent. In fact, most larger institutions have negotiated a flat 0.2 per cent rate on all deals, which is much easier to understand than the multi-rate scale structure of a year ago.

However, even bigger savings result from the popularity of dealing directly - or "net" - with the market makers and paying no commission at all to a broker. In the first few months after Big Bang, the institutions flexed their muscles by doing about 60 per cent of their deals on a net basis. Since then the proportion has fallen back to about 50 per cent.

Some private investors have gained from commission-cutting or net-dealing. A few firms, such as Hoare Govett and Kleinwort Grieveson, launched cut-price services for small investors last autumn but were forced to withdraw them because of their backlog of unsettled bargains. As a result, the minimum commissions on the smallest bargains are higher today than a year ago. However, to transact bargains worth more than £2,000, private investors can find several brokers charging less than the 1.65 per cent pre-Big Bang commission rate. As more automated systems are installed in 1988-9, the charges should fall further.

Even private investors have benefited by the narrowing of the spreads between the most attractive buying and selling prices charged by the market makers. Despite fears that Big Bang would mean a drying up of the market in the less liquid beta and gamma small company stocks, the spreads have narrowed by 10 to 12 per cent. In alpha stocks, the spreads have not changed for deals at normal market size, and it is now possible to deal in treble that size without forcing a widening of the spreads.

Post-Big Bang prices for dealing in securities are about 30 per cent of their level of a year ago.

Taking the three types of price reduction together, post-Big Bang prices for dealing in securities are broadly about 30 per cent of their level of a year ago.

In most industries, such savage price-cutting would have led already to a wave of insolvencies. But in the UK equity market, the adverse effects on revenue have been offset by a doubling in the average daily value of deals by investors (excluding intra-market-maker deals). And, as nearly all stockbroking firms made record profits in each of the three years prior to Big Bang, there is plenty of fat to be burnt off.

But two other threats have emerged, the entry of new competitors, particularly from the US, and the massive increase in costs faced by all firms.

The additional cost that has attracted most attention in recent months has been that of processing and settling the number of bargains which, when intra-market maker deals are included, have trebled since Big Bang. But the heaviest up-front costs have gone on installing computer systems on newly-constructed dealing floors for the new market of combined trading and broking operations, conducted over the telephone rather than on a centralised Stock Exchange floor.

The most serious source of cost inflation has been the bidding up of salaries, often into six figures, as those firms which failed to form an alliance with a broker or jobber sought to build up their own teams by luring away, and then tying in, key staff.

Although the US banks took salesmen to New York for retraining as traders, until recently the potentially cheaper route of training and not buying in staff was rejected by most UK firms as taking too long. In an atmosphere of "pay now and worry later", the inflated salaries have gradually affected all levels, so that even secretaries can now earn £25,000 with overtime.

Numbers, too, have soared. County NatWest, for example, has trebled its staff since 1985. Large pockets of over-manning are apparent which compare ominously with the lean operations run, for example, by some Japanese firms in the City.

The problem is that most firms cannot identify, except in a vague way, where their revenues are coming from and their costs going to, and which of the hundreds of new faces are earning their keep.

In their partnership days, broking firms were reluctant to tie pay too closely to performance, and few developed sophisticated management accounting systems. The frantic preparations for Big Bang left little time for such luxuries. Another consequence is that too little thought has been given to developing new ways of pricing services and charging clients.

These issues, and in particular cost-cutting, are likely to gain importance over the next year. Salaries have already levelled off, except for qualified settlements staff, and cuts in bonuses are expected once the pre-Big Bang guarantees to key staff expire.

A closely related issue has been the management of risk exposure. No firms have yet developed a global on-line system for the constant monitoring of the net positions held by traders, although such systems are likely to start appearing late next year, with the US banks in the lead. Firms have therefore not been able to use their capital to its maximum effect, and have had to impose unnecessarily onerous position limits on their traders.

The most important strategic question remains unanswered: to what extent will the industry become concentrated and the small firms fall by the wayside?

The more dire predictions, that London will be dominated by about 10 Japanese and US institutions, now seem unrealistic. There is room not only for small niche operators but also for medium-sized firms focusing on a range of market segments in which they can be leaders.

The failures will be those that fail to focus, and follow a "me too" policy across too broad a range of products and sectors. Among those too small to be giants exploiting global economies of scale - which probably means nearly all the UK-owned firms - the rewards will go those who innovate, by cultivating new markets and finding new products to serve them.

The hexagons endure, but Big Bang changed the shape of trading

Global trading

Seaq stretches the day

TWO-THIRTY in the afternoon used to be the time when City of London stockbrokers began to ease themselves carefully out of their lunch chairs. These days, however, it has become one of the most significant times in the City's day, as the New York equity market opens and responsibility for position taking in US equities is handed over to Wall Street traders.

But if the day tends to close early for London's international equity traders, it opens early, too. At 7.30am the Japanese traders of the big global firms are on the line, with time for a brief discussion before the on-screen trading books are flashed electronically across nine time zones.

London's daily tenure of the global market is comparatively short - it is more like 6pm in New York before weary traders can transfer their burden to what is, at that stage, breakfast-time Tokyo. London has a bare seven hours, against eight or nine for the other centres. Nevertheless London plays a key role, not least because it is much more international in character than the other two.

It actually has a defined international market, the Seaq International screen-based trading system, with nearly 50 registered market makers. This system is not yet so well developed as the domestic Seaq, notably in the area of reporting of trading volume, so the exact size of business transacted in London is still unclear.

However, the recent report published by the Quality of Markets Committee of the International Stock Exchange in London suggested daily turnover in the UK capital of the order of £1bn, against £1.5bn in the domestic equity market.

By no means all this trading was by London member firms. The guess is that, at present, two-thirds of it is being handled by other firms located in London.

Information will improve with the spread of voluntary reporting procedures through more and more national sectors, and eventually with the controls which must apply when the full provisions of the Financial Services Act come into force.

Several different kinds of business are transacted through Seaq International. Some of the trading in leading Japanese, Australian and American stocks can be defined as part of the global equity market. That is, it is being handled outside the working hours of the markets in the relevant countries.

The Japanese sector is the most important here, perhaps because Tokyo stocks are otherwise more or less inaccessible to investors in the European time zone during working hours (normally orders have to be placed overnight in Tokyo).

So Japanese equities accounted for 21 per cent of Seaq International turnover in the January-June period this year, far outstripping the 8 per cent represented by US equities, which can be traded directly in New York in the afternoon. Australian equities are also surprisingly significant, at 6 per cent of the business transacted in the first half of the year.

The other main category of the business is parallel trading of continental (and South African) stocks within the same time zone as the national markets. It may take place in London because, in some circumstances, bigger blocks can be handled, or perhaps because heavy transaction taxes can be avoided.

According to the Quality of Markets Committee, London trading can account for a significant proportion of domestic market activity - reaching as much as 50 per cent of Amsterdam trading in stocks such as Unilever NV and Royal Dutch Petroleum, though only about 10 per cent for Heineken or Philips.

There is a particularly active market in Swedish equities in London, helped by the high turnover tax of 2 per cent imposed on Stockholm transactions.

An important feature of the Seaq International market is that it provides high liquidity in the heavily traded stocks. The average size of deals in German stocks in London is £150,000, compared with only £20,000 on the Frankfurt market. On the other hand, markets in second-line stocks may well be rather nominal in London.

Over in the US, trading of international equities is not nearly so important in comparative terms, that is, relative to domestic business. But the New York Stock Exchange has been eagerly courting overseas listings, as indeed has the over-the-counter market Nasdaq, and the number of foreign stocks available in ADR (American Depository Receipt) form has been growing fast.

On the NYSE, trading in 1986 in 23 ADRs and 45 overseas stocks amounted to $70.8bn, about 5 per cent of total equity trading. No doubt this business will show a substantial increase for 1987.

As for Nasdaq, there was trading in 88 ADRs and 176 foreign securities, albeit mostly of smaller capitalisation - than those traded on the Big Board. Volume was $24.9bn, or 6.6 per cent of the total.

For comparison, £1bn of daily trading in London would correspond to something of the order of $200bn a year in the US, allowing for the way that London counts each bargain twice. So it would appear that London does appreciably more international trading than the NYSE and Nasdaq combined.

Incidentally, one sign of the continuity of the global market is that London has now started trading ADRs, even though these instruments are designed specially for American investors.

A handful of the top US investment banks are leading the global equity business. For instance, Merrill Lynch trades out of Tokyo, Hong Kong, London, New York and Toronto, with Singapore to follow before the end of the year. It runs 24-hour books in leading Japanese, Hong Kong, South African and Australian stocks, together with between 50 and 100 NYSE listed stocks and more than 100 US OTC stocks.

Mr John Tognino, in charge of global equity trading for Merrill, sees the importance of the market as "giving the customer the ability to have instant liquidity any time of the day or night he wants it".

He admits that the global market is somewhat unco-ordinated at present, with no common systems in place, and scant information. But he looks forward to improved visibility. "I would welcome more disclosure about the market place clear around the world," he says. "That breeds investor confidence."

Merrill is now concentrating much of its effort on putting new technology at the command of the trader, enhancing the firm's ability to link five global trading outlets.

Not all US investment banks are going down this road at this stage, however. Prudential-Bache, for instance, runs its international equity book wholly out of New York. That means Pru-Bache's veteran head trader Mr Rolf Roland has to open his book at 4am in New York, sometimes from the back of a Cadillac. However, it makes for a simpler operation.

According to Mr Fraser Jennings, joint managing director of Prudential-Bache Capital Funding (Equities) in London, a selective approach is needed.

"To adopt a universal approach to global trading has been a painful experience in some cases," he suggests. "There are some stocks you can trade around the globe. There are others you can only trade when the home market is open."

The trading houses, he adds, tend to think that by trading stocks they create liquidity. The more cautious Pru-Bache view is that you have to build up the distribution capability first.

Barry Riley

Small bangs

Deregulate or risk being left behind

THE FEAR of remaining a backwater in the increasingly competitive financial market place is shaking off the cobwebs of stock exchanges around the world.

Encouraged by the trend among western governments to lift barriers to international flows and by advances in technology and communications, stock exchanges whose practices had hitherto often been unchanged for decades are in a state of flux.

What has resulted is called *competitive deregulation*, and it is led by the fear of being left out of a huge and growing worldwide industry. High taxes on doing business, high fixed commissions encouraged by a protected cartel, archaic settlement procedures, all stand in the way of participation in the business, and the rationale is that they must be swept away.

It is a process that is seen continuing. Mr Richard Wilson, executive director of corporate finance at Hoare Govett, says: "Competitive deregulation has gone so far that it will only be reversed if there is some big return to protectionism and trade barriers."

The opening up of London's domestic markets to foreign competition in October last year has provided much of the incentive for other countries in western Europe to follow the British example. At a time of sharply growing volume of international share trading, more and more business in the shares of continental European countries was being transacted through London. It was not merely a matter of following a leader; it has been a question of changing to survive.

The use of the term "Big Bang" to describe the London liberalisation has naturally encouraged the use of the phrase "little bangs" to describe the liberalisations elsewhere. However, with some exceptions, such as Canada and France, the description is usually a misnomer. More common is a kind of rolling deregulation, as commission rates are cut and foreigners allowed to trade in local stock exchanges and bond markets. Here is a brief summary of how this deregulation is being handled in some important markets:

In a kind of rolling deregulation, commission rates are cut and foreigners allowed to trade.

Canada is The world's fourth biggest equity market after the US, Japan and Britain, and the reforms which comprise the Little Bang end the traditional four pillars of the country's financial industry - banks, trust companies, insurers and securities firms.

From June 30, any firm has been allowed to become a full securities dealer by acquiring an existing one or setting up a new subsidiary, although foreign firms are limited to 50 per cent until the middle of next year. US banks have moved in: First Chicago bought 35 per cent of Wood Gundy, and Security Pacific 30 per cent of Burns Fry. So have the Canadian banks: Bank of Nova Scotia has acquired McLeod Young Weir, Bank of Montreal bought control of Nesbitt Thomson, while Canadian Imperial Bank of Commerce formed a joint venture with Gordon Capital. Toronto Dominion is building up its own securities arm.

As France steps up the pace of its privatisation programme, it is also stepping up efforts to become the premier financial centre in continental Europe. According to some estimates, over 15 per cent of daily turnover in the main French shares has been taking place through London, bypassing the Paris bourse. Major efforts have been made already to improve liquidity, introduce computerised trading and improve the opportunities for hedging. A new law expected to pass in the current parliamentary session will, among other things, gradually end the stockbrokers' closed shop, allowing foreign ownership to increase gradually and ending their monoply in 1992.

Japan has been undergoing a gradual liberalisation of its banking and securities regulations for years. The next step will be the opening up of the Tokyo Stock Exchange. After long consultations, the TSE is later this year expected to endorse an expansion of its membership from the present 93, probably by about 15, with the bulk of the new seats going to foreign securities firms.

That still leaves more fundamental changes, such as the abolition of fixed commissions on the TSE, which are likely to take longer to achieve. Article 65 - the Japanese rule which separates commercial and investment banking and thus forbids banks from securities dealing - is perhaps unlikely to be abolished while its US counterpart, the Glass-Steagall Act, remains.

Australia this year allowed outside shareholders, both foreign and domestic, to hold 100 per cent of Australian broking firms, after allowing 50 per cent ownership for more than two years. Links between Australian and foreign brokers are likely to become even firmer this year.

These changes have coincided with a deregulation of brokerage rates, which have more than halved since 1984. The six Australian trading floors are also proposing joining into one entity, known as the Australian Stock Exchange.

In the Netherlands, the Amsterdam Stock Exchange has launched a rolling Big Bang of its own, forced by London's rapid development as the share trading capital of Europe. Unlike in London, a central trading floor is critical to the Amsterdam strategy. However, it has set up a special interprofessional market which by-passes the trading floor and has capped at Fl1,200 the stamp duty that was driving business to the UK.

Stephen Fidler

Globalisation has quickened life in trading rooms: FT writers report from two of them... **Clare Pearson** in London...

Leaping ahead on a nice greasy breakfast

IT WAS midday on September 30 at SBCI Savory Milln, the London market maker which specialises in trading in continental stocks. Most of the dealers had had a quiet morning.

Yet behind the placid scene lay the revolution in international share dealing that has not only enabled houses like SBCI Savory Milln to deal in 300 European shares but, in some cases, given London-based houses price leadership in trading the shares in the domestic market.

Savory made an early drive to get into European share trading when continental markets were deregulated two and a half ago - Hugh Hughes, now managing director, brought a team of market makers from Wedd Durlacher, the jobbers, to set up an international dealership in April 1985. This year, its acquisition by Swiss Bank Corporation International has provided it with a greater capacity to extend its trading operations. It intends to start a market making operation in New York, which will be able to continue trading the books after the close of London business.

Meanwhile, the competition in London has been hotting up considerably as new players - especially the US houses - have built up their trading capacity in European shares. Currently there can be as many as 18 London market makers quoting prices on Seaq International screens introduced at Big Bang.

Savory's dealers start the day with a hearty breakfast supplied by the firm at 7.30am ("nice and greasy", as one dealer described it). After this, they listen to the morning meeting, at which the analysts set the tone for the day's dealings.

Normally, the pressure of keeping up with the markets is alleviated by the fact that UK clocks run an hour behind those on the continent. For a few weeks at the end of September and during October, however, European time runs in tandem.

This has two disadvantages for London. First, it means that, although they are ready to start off-exchange trading at 8.00am, continental dealers reach their desks about an hour later, so they are left waiting, nervously. Second, dealers in the West German market miss out on their normal two-hour break from exchange-based dealing between 12.30 (London time), when the German stock exchanges close, and 2.30 when New York opens.

The volume of business transacted before the continental exchanges open varies widely. For instance, in the West German market trading ahead of the 11.30 (German time) opening of the exchange has tended in recent months to be thin and client-led.

In Scandinavian shares, however, London is almost always the main focus of business. In the case of Sweden this reflects the imposition last summer by the Swedish Government of a 1 per cent turnover tax, which has virtually priced the domestic stockbrokers out of the market. Now the Norwegians look likely to impose a similar measure in their next budget.

Shares of leading Swedish companies have also become actively traded in New York in American Depository Receipt form, although the US generally plays second string to London, with ADRs - which are traded interchangeably with the Seaq stocks - generally picking up the prices already established by the London market makers during the morning.

Just at the moment, however, said Richard Lilley, the dealer responsible for trading Scandinavian shares, he was having to keep more of an eye out for what was going on in Sweden than was normal, as investors in other areas were fairly quiescent.

Mid-morning, news of a bullish newspaper report in Sweden on Electrolux caused a sharp upward movement in the Swedish kroner-quoted price. The Seaq-market makers quickly adjusted their dollar-quoted prices.

The Norwegian market - "which has really come to life over the last six months" - was occupying more of his attention, however.

Here it has become easy for the London market makers to establish a lead over the "antiquated Norwegian stock market". There, prices are fixed just once a day at 10.30 (Norwegian time) in an open outcry auction, and they do little more than reflect the levels already established by the London market makers, and transmitted into the Reuters system.

In the Norwegian stocks, too, the opening of New York at 2.30 makes only a muted impact. For instance, in quiet trading on September 29, 162,000 Norsk Hydro bearer free shares had changed hands in London, compared with 31,000 Norsk Hydro ADRs in New York.

Covering the West German sector, however, demands greater attention to the goings-on in the domestic markets. As Mr Nick Collings, head of European trading, who is also responsible for trading in the sector said: "There are eight stock exchanges in West Germany, and we have to monitor four of them during stock exchange hours."

And this year, London price movements have more than ever followed the domestic market as overall international investment slumped following the sharp fall in West German share prices at the end of last year.

So Mr Collings' morning consists of keeping a constant eye out for developments particularly on the Frankfurt and Dusseldorf exchanges, where the main West German stock exchange volume is transacted. On this particular day, however, there was little going on apart from some movements among the stocks of chemical companies such as Bayer.

By contrast, Mr Stephen Probert, who deals in Netherlands shares, has to be most on his toes in the afternoon as the main Dutch shares are quoted in New York and are often used in the US as part of computerised buy and sell orders.

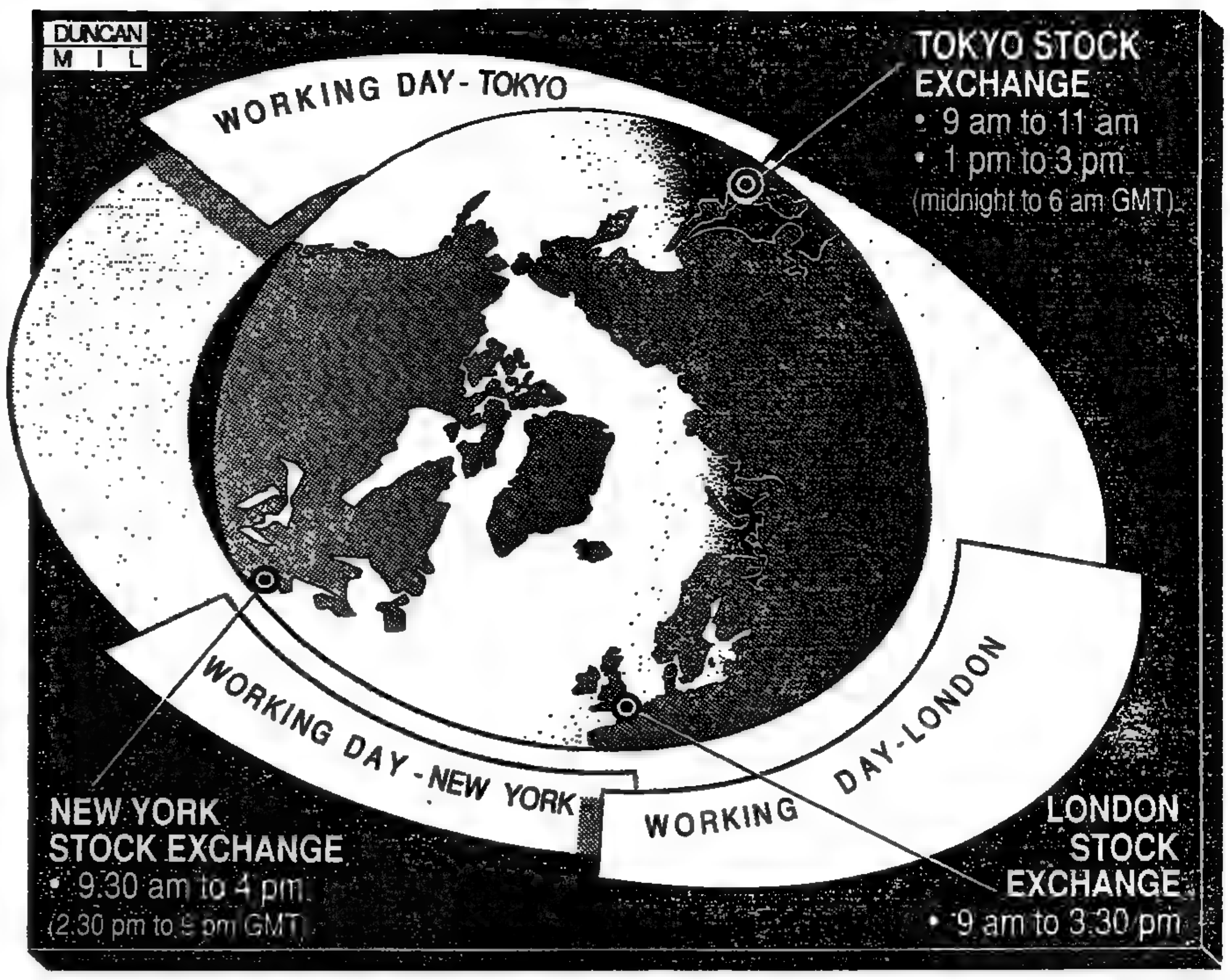
London-based business often consists of arbitraging between the different listings of the main Dutch stocks, such as between Royal Dutch Shell and Shell, for instance, or the various listings of Unilever.

But perhaps the real action on this day was happening on the French desk: selling was rampant as French stock, and bond prices were hit by concern that French interest rates would have to rise to protect the currency.

London sees about 25 per cent of the total Paris stock exchange volume in the 23 stocks that are quoted on Seaq, with the business dominated by UK houses rather than US.

The Seaq market makers are allowed to pack up quoting firm prices on the screens at 3.30pm. However, they generally stay till 6.00, dealing in other shares and carrying out orders on behalf of US and other clients.

After that, one dealer makes himself available for dealing from home until Wall Street closes at 9.00pm (London time).



...and **Anatole Kaletsky** in New York

Passing their book round the world

SEVEN IN the morning is a quiet time by the standards of Morgan Stanley's enormous floor-through dealing room, which occupies nearly a whole city block, levitated 33 floors up above the Rockefeller Centre in mid-town Manhattan.

But on the international desk in the eastern wing of the pavilion, the screens are already flickering, and phone calls are being placed between gulps of weak American coffee and sticky morsels of donut.

Talking to their counterparts in Morgan's London office is the first order of business for each of the 10 international equity traders. The purpose of the early morning phone calls is not only to learn about the market action - the main event today is a rumour from Hong Kong that Jardine Holdings has bought a big stake in Bear Stearns - but also to prepare for the handover of the European and Far Eastern equity books from London to New York.

Morgan Stanley has gone farther than many firms in pursuing "globalisation" to its logical conclusion. All of its international equity dealings are organised into one book, which is passed every day from Tokyo to London to New York, and then back to Tokyo as each market opens and closes. The profits and losses - as well as the traders' bonuses - are calculated for the firm's entire international dealing operation, treating all of the desks and traders as a single profit-centre and organisational unit, regardless of whether they happen to be located in London, Tokyo or New York.

This is one reason why deals - and dealers - move smoothly from one centre to another. Chuck Geeson, who is in charge of the international desk today, actually lives off Sloane Square in London. Along with David Williams, an Englishman whose normal job is to trade UK equities from London, Geeson is spending a few days in New York, while their New York-based counterparts do their normal jobs in Morgan's London office.

The worldwide sharing of responsibility and personnel seems to contribute to the camaraderie among the traders. These seem to be young people - Geeson, at 30 is the oldest person on the desk - who work well together, have fun together and share in one another's triumphs and misfortunes.

Over on the US equity desks which dominate the dealing room, the personnel look somewhat older, and maybe more hard-bitten. One of the few people already hard at work there is Bob Grohskopf, an intellectual-looking and articulate young man, whose task it is to trade in New York for Morgan Stanley's international book of US equities.

Like the dealers in foreign stocks, Grohskopf shares responsibility for his book with a counterpart in Tokyo and one in London. His job is not to deal for clients, but to ensure that the positions the firm requires to trade in US equities in other time zones are profitably opened or closed. Immediately he comes into the office he is on the phone to both London and Tokyo, planning a strategy and finding out about the foreign clients' anticipated needs.

By trading his US equity book round the clock and keeping constantly in touch with dealers in the other time zones, Grohskopf believes he can get better prices for Morgan Stanley's overseas clients, particularly those in Japan - as well as making trading profits for the firm.

Worldwide sharing of responsibility and personnel seems to contribute to the traders' camaraderie

"We don't try to compete with the Japanese brokers in straight capital," he says. "But we can add value with better information and execution. The Japanese brokers on the floor are very visible and they aren't always very discrete - often they run the stock up against their own clients. There are big risks in overnight trading, since there are long periods with no liquidity. But if you're on top of the information flow, you can do very well."

By 7.45 the first batch of international phone calls is completed. The senior traders are prepared for the early morning's main event - the daily trading strategy meeting conducted at eight o'clock sharp by Anson Beard, the head of Morgan Stanley's entire equity operations, and one of the most senior figures in the firm.

The mood in the meeting is distinctly bearish. Interest rates are still rising around the world and the technical analysts sound uncomfortable. They predict steady buying interest today, but warn that much of this will be window dressing for the end of the quarter. They use nervous phrases like "weird stuff" and "off the wall" to describe the feel of the recent trading.

There is some merriment all round about a minor fiasco suffered in the Japanese market by one of Morgan Stanley's arch-rivals in the international equity business. The rival bank was handling an ADR issue for Tokyo Marine & Fire. The pricing was to be set on the stock's close in the Tokyo market. But somebody ramped the shares and then dumped them. There was a large imbalance of sell order at the close, no closing price and therefore no price for the ADR issue in New York this morning.

Immediately after the general strategy conference, the international traders huddle off in their own meeting. Each describes his or her own market, and highlights a couple of stocks in which the firm has a position, a special interest or a particular view. With the morning meetings over, the four sales traders get down to work in earnest, plying the institutions with buy and sell suggestions.

The traders, meanwhile, start prodding their calculators and scribbling on their notepads, looking for opportunities to square their books or make a turn on arbitrage. Most of the arbitrage business must wait, however, until 9.30, when the New York Stock Exchange officially opens. As an NYSE member firm, Morgan Stanley cannot trade in listed ADRs outside the exchange's official opening hours.

As 9.30 approaches, the murmur in the room builds up in a tense crescendo. The moment is approaching for some quick judgments by Don Crooks, a soft spoken but intense black belt karate master in his forties, who is the senior block trader on the US equity desk. Crooks is the most important person in the room apart from Anson Beard, who paces solemnly around the desks, chomping the obligatory huge cigar.

The biggest question is where Bear Stearns will open following the rumour about the Jardine stake. Crooks has told one of his junior dealers to try and open the stock in Boston, ahead of the first trade in New York. Then, just before the opening bell, a statement flashes across the huge electronic ticker. Trading in Bear Stearns is suspended, a company announcement is pending. No member firm can trade the stock until dissemination of the news is complete.

The disappointment on the desk is palpable. There are no other special situations for Crooks and his colleagues to get excited about, and the market opens quietly with just a trickle of orders. Like the dealers on the international desks, Crooks starts to prod listlessly at the quote machine, looking for the odd trading turn in Newmont Mining or another takeover stocks.

Back at the international desk, trading is flat around the world. When a big order comes in for any market, all of the traders appear excited. Well after the New York market has opened, First Boston offers the Tokyo Marine & Fire ADRs. The price, to the delight of Joe Jangro, the Japanese equity trader, is 2¼ per cent below the last trade in Tokyo. Jangro considers taking a position. He had discussed the situation at five o'clock that morning in his regular phone conference with his counterparts in Tokyo and London. In the end, however, he decides against a big play. The New York market in Japanese ADRs is highly illiquid at present because of the currency risk, he notes. There is no point in sticking his neck out on this one.

There is a minor commotion on the other side of the desk, among the sales traders. David Colins, a dapper Australian who is unusual in the Morgan set-up because he combines the sales and trading functions in the Aussie market, has struck a big deal. A seller has come to him with an offer of one million

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Equity-linked bonds

Dilution provokes a revolt

THE EQUITY convertible market, until recently a small sub-sector of the Eurobond market, leapt into the centre of the debate about the nature of the international equity market this year.

Equity-linked bonds had from time to time been fashionable as an apparently cheap way for companies to raise finance. By offering the equity "kicker" - a chance to convert from bonds into shares at a profit - corporations were able to offer lower coupons on such issues. The immediate effect of reduced interest costs was a tempting benefit; the hidden costs in terms of dilution for existing shareholders were harder to measure, and thus easier to ignore.

But it was that dilution effect that eventually provoked a revolt from UK institutions this year. *Part of the rationale behind* "Big Bang" was to allow London to become part of an international equity market, and some of the overseas securities houses have been eager to attract corporate customers by offering to manage equity-linked issues.

The problem for UK institutions is that such issues are a challenge to their pre-emptive rights to any new shares offered by companies. They argue that, as shareholders are the owners of companies, they *should not* have their holdings diluted without compensating benefits.

Against that, companies and securities houses argue that individual equity markets are *too* small to be able to handle the financing needs of multinational corporations. An international equity base, by being much broader, should be more stable. That will be of benefit, in the long term, to corporations and thereby their domestic shareholders.

An editorial in the Treasurer, the monthly magazine of the Association of Corporate Treasurers, recently pointed out that the UK market represents less *than 10 per cent of the total* worldwide funds available for worldwide equity investment. The principle applies all the more in other financial centres with even smaller investor bases.

But institutions are undaunted by these arguments. If international investors want to buy equities they are perfectly able to do so via the existing secondary markets. Companies should encourage them to do so, say the institutions, rather than incur fees, commissions and expenses offering them cheap shares through an equity convertible.

Nevertheless, a spate of companies issued Euroconvertibles earlier this year - including three, ASDA-MFI, Burton Group and Tesco - which topped the £100m mark. That caused the patience of some *institutions to snap* - and the Association of British Insurers asked companies to limit the amount of shares issued without pre-emption rights to 2.5 per cent of *the equity, down from the previous* limit of 6.67 per cent.

Hillsown Holdings sidestepped the rules by issuing a £125m convertible in July as a vendor *placing for the purchase of Maple* Leaf Mills. Otherwise the flood of convertibles from UK companies has dried up. But, fortunately for the equity convertible market, issuers are not confined to the UK. The Japanese have dominated the market in recent years - with equity warrant issues proving much more popular than convertibles.

In recent months, by issuing warrant-linked issues denominated in dollars and then swapping the proceeds into yen, some Japanese issuers have been able to gain access to funds at negative interest rates, that is, they are effectively earning interest by *borrowing* money.

Unlike convertibles, warrant linked issues are not designed to attract long term overseas equity investors. The warrants are commonly detached from the host bonds and become a highly geared option on the company's share price. In periods when the Japanese *stock market* is sharply rising, the warrants can thus be extremely profitable - leading to the virtuous circle of issuer and investor enthusiasm *for the instruments.*

Euromoney, the banking magazine, estimates that the total value of warrant-linked issues in 1986 was $15.13bn, compared with $6.63bn of convertibles. However, in the summer, a combination of a surfeit of issues and a flagging Tokyo stock market led to a poor reception for many bonds.

Three Japanese securities firms, led by Nomura International, attempted to restore order by calling an informal moratorium on new issues but Nikko continued to test the market - and the others were forced to resume issuing.

But the hiatus in the market illustrated how much it depends on rising equities - and suggests that equity-linked bonds will not be a feasible fund-raising option for companies in a prolonged bear market.

Philip Coggan

Passing a book round the world

Continued from page 5

shares in a second-line Australian company. It is a huge order by the standards of this stock - equivalent to an average month's trading volume, according to Colins.

Colins buys all the million *shares on offer. Five minutes* and one phone calls has disposed of half - a fund manager he happened to be lunching with the week before had expressed strong interest in the company. As for the rest of the stock, Colins says he would be happy to carry it on his book for up to six weeks if necessary. He is comfortable with the price he paid and pleased to further his reputation as the biggest overseas dealer in the Australian market.

"The *Seaq market in London is* good for 10,000 shares of most Australian companies," he says. "But we have the niche for anyone who wants to buy in size outside market hours. For them, we are the market."

Soon after Colins' coup, the ticker flashes news from Bear Stearns. The rumours were true Jardine Holdings is buying 20 per cent at $23 a share. But hopes of a big flurry in either company's shares are disappointed. Over on the US desk, Don Crooks opens Bear Stearns at $21¼. On the international desk, there still isn't much interest in Jardine stock.

As the day stretches on, the traders become alternately restless, playful and philosophical. "Why is it that the highest-flying MBAs who apply to join Morgan Stanley now want to go into international equity trading?" muses Bobbie Ward, who deals in several European markets. The job is tough and hours are intense, but at least they're not too long. "I don't have a bleeper on my belt when I go out to dinner, like the mergers and acquisiton guys, and nobody calls me back from a vacation in the Caribbean."

As lunchtime approaches, the sandwiches and hot dogs come up from the cafeteria on the 30th floor. Despite the lack of action in the markets, none of the traders feels free to walk out for a leisurely lunch. Instead coffee and ketchup get spilled, in the hideously overcrowded conditions, over the tiny scraps of paper on which the traders calculate their prices and put together multi-million dollar deals.

By the time the hot dogs are eaten, Europe has gone home and Tokyo is fast asleep. On a dramatic day, this is when the New York market for international equities, might really come into its own. On the September 30, though, even the market for US stocks is dead as a dodo.

As was predicted in the morning meeting, much of the volume of 182,000 shares seems to be programme trading - a conjecture confirmed by the simultaneous repeated blinking of all the major stocks on the Quotron screens just seconds before the closing bell. Since it is no fun to banter with a computer, there is little left for the traders to do but gossip, tell jokes and throw paper balls.

Euro-equities

Adapting to new risks

WHILE EUROBOND issuance is on the wane, the Euro-equity market is booming - new issues ran to $10.95bn in the first nine months of this year, against $11bn for 1986, itself up from $4bn in 1985.

Its evolution has been dominated by debates among issuing houses about how to adapt international distribution and underwriting procedures, learned in the Eurobond market, to the more risky and fragmented equity markets.

Issuing shares is a more sensitive undertaking than issuing debt, because, while bonds are individual commodities, a new share is fungible with all others outstanding. So if anything goes amiss in the issue, the entire equity base of a company can be affected.

The risks that underwriters run when launching an international equity issue were underlined by the now fabled debacle associated with the $2.2bn Fiat issue led by Deutsche Bank in September last year.

Among other problems, underwriters were left in the dark about whether the dollar-denominated shares could be traded interchangeably with the lira shares quoted in Milan; and some houses used bond salesmen to sell the shares, many of whom approached the same investors quoting different prices, contributing to a sharp fall in the share price.

There are, however, some straightforward ways in which Eurobond syndication techniques have been adapted to Euro-equity issues - essentially involving the extension of the syndication time and leaving the pricing open.

Usually, a preliminary prospectus is published and used by a group of banks, who have provisionally agreed to underwrite a portion, to "build a book" of client interest over a period of some two to three weeks. The company will then conduct a series of investor presentations in European centres, which should give some indication of demand; after that, the price is fixed and firm sales made.

Beyond that, a myriad of solutions have been produced to the problem of how to construct the group of banks which will undertake the sales. However, they essentially split into two broad policies: the "regional" and the "global" approaches.

The regional approach is predicated on the view that each geographical area is a separate marketplace, so effective selling in each domestic market is best achieved by appointing a leading domestic bank and giving them exclusive rights to distribute in that area. Hard-line advocates of the global approach, on the other hand, take the view that a single "book" should be run without geographical restrictions, either on approaches to investors or the ability of investors to re-sell.

Not surprisingly, the European houses have been the main advocates of the regional approach, while the US houses, whose strength in Europe is the breadth of their coverage rather than its depth in any particular nation, have championed the global approach.

So the European privatisation issues have broadly been syndicated according to the regionalists' doctrine, while the European tranches of US issues, the largest of which was a $200m deal for Citicorp led by Merrill Lynch Capital Markets, have been syndicated globally.

"Regional" enthusiasts produce the following main arguments for their approach.

● Local underwriters will know the investment interests and requirements of their local clients;

● They should be familiar with the local laws and regulations, as well as the practices of their local securities markets; and, perhaps most important,

● They are unlikely to approach the same clients when soliciting interest in the issue.

It is also argued that the regional syndicate is a means of reducing "flow-back" of shares to their country of origin, since a localised lead-manager should be able to make sure there will be a continuous secondary market and provide information on the issuer's activities.

Against this, enthusiasts for the "global" approach argue that strict geographical dividing lines cause shares to be allocated according to underwriting responsibility, rather than in response to demand, which may be greater or smaller than was initially anticipated.

As Mr Bob Steel, of Goldman Sachs International, says: "Underwriting's a less difficult task than distribution. It's selling that's the tricky part, and that's why it's essential to maintain flexibility over allocations and selling restrictions."

It is also argued that, where the "global" lead-manager has a reach across different markets, lack of geographical sales restrictions allows recycling of shares to be carried out within the lead-manager's distribution system, reducing the number of shares being sold back into the issuer's country of origin.

However, over the last year a hybrid syndication system, uniting different aspects of both the regional and global approaches, has emerged - a development which has spawned a new term, "global co-ordinator", for the lead-manager's role.

Here, different lead managers and underwriting syndicates are set up for each of the regions, but one house (probably acting as lead-manager in one of the regions) has an overall controlling role.

A prominent example of this form of syndication has been the $500m issue for Philips, the Dutch electronics group, launched last May. Here, a "global co-ordinator", Credit Suisse First Boston appointed four different lead-managers with regional responsibilities, but allowed them to shift shares between areas.

There have also been numerous examples of issues partially segmented into different regions. For instance, in the case of the French privatisations, teams covering the UK, Switzerland and German have been organised separately with the remainder thrown into a "rest of the world" tranche.

As crucial as effective initial distribution is, of course, after-sales services - a major problem of some of the early international issues was that investors were swamped with information on a company at the time of issue and then heard no more about it.

So, far more than in the Eurobond market, the houses that are expected to gain ground in the Euro-equity market are those who exemplify what Mr Steel calls the "holy trinity" of research, sales and trading.

At the moment, however, it is thought a large number of firms are still using bond salesmen to distribute new Euro-equity issues.

For this reason, in addition to the far greater risks associated with holding equities, the number of players in the Euro-equity market is unlikely to mushroom as it has in the Eurobond market.

Euro-equity specialists say about five houses currently control 50 per cent of the business, while the number of "significant" players totals only perhaps 12.

Clare Pearson

New issues

Europeans set the pace

NEW ISSUES of international equity have rocketed in recent years, taking advantage of a bull market in shares, and developments *such as* privatisation and a widespread dismantling of barriers to capital flows.

According to figures compiled by Euromoney, the first nine *months of 1987 saw the volume* of equity-related issues rise almost to $36bn. Nearly $11bn was of straight equity and the rest was made up of convertible bonds or bonds with equity warrants.

This already exceeded the total issue volume in 1986 of $33.4bn, of which $11.8bn was straight equity; and is treble that of 1985.

Part of this was due to the growing momentum from privatisations: some $26bn of shares in government-owned companies were sold around the world in 1986. The 1987 figure is expected to exceed $31bn, while it is forecast to grow almost to $50bn each in 1988 and 1989.

So far, Japanese companies have preferred to issue the equity in the *form* of warrants attached to bonds, with foreign exchange swaps making them an extremely cheap source of funds. Those Japanese companies, such as banks, which are prohibited from issuing equity warrants prefer the convertibles market. It has been European companies which so far have taken most advantage of the growing international market for new share issues.

Companies from France, Italy, *Switzerland, Germany,* the Netherlands, and Sweden have all provided significant new issue volume in the international market. So has the UK, though *new issues by British companies* have been slowed by the dislike of their domestic institutional shareholders to anything which they see diluting their own stake in a company.

US companies, however, have been slower to enter the fray, though their use of the market multiplied tenfold in 1986 on the previous year, and in 1987 an even larger number of share offerings by US companies carried an international tranche.

This issuer profile has given a lead in the market to European banks and securities houses. Deutsche Bank, Lazards, Credit Suisse First Boston, Dresdner, Paribas and Warburg all have significant positions in the market for issuing straight equity. After lagging at first, the American firms are fast catching up.

Not everybody is convinced of the value of international share issues. Unenamoured of the process are the UK institutions, which have moved to prevent new issues which dilute their holdings by more than 2.5 per cent. They insist, as a company's owners, on the right of first refusal for new share offerings, suggesting that new share issues overseas are a fad hoisted on corporate treasurers by slick *investment bankers.*

The UK institututions have argued that a foreign shareholder base can be built up in the secondary market, in the *way that ICI and Glaxo have.* But this seems useful only for the larger companies, whose shares are actively traded. For smaller companies, the only way seems to be through new share issues, because most institutions will not commit to a stock unless they can ensure themselves of a meaningful block of it. To acquire such a block of a small company in the secondary market often merely succeeds in driving up the share price.

As the market has grown, so ideas about how it should be run have begun to crystallise. Last year's $2.2bn offering of Fiat shares - not strictly a new issue but a secondary offering of shares in the company owned by Libya - through Deutsche Bank displayed the perils of getting it wrong.

The Fiat issue not only underlined the limits to the market's ability to absorb international equity placements, but also the ultimate dependence of all those placements on the domestic market. The dreaded "flowback" of those Fiat shares to the Italian market pushed the share price sharply lower and caused the archaic Italian share settlement system to grind almost to a halt.

A large proportion of the issue remains unplaced: Fiat said last month that Deutsche still had $550m *of Fiat shares on its books.*

The lessons of Fiat may have been learned, but the problems of flowback have not been completely cured.

Mr David Rochester, managing director at Merrill Lynch, says: "The only way to prevent flowback is to make sure the shares are in firm hands. That's why the *emphasis is on those* firms who have real distribution capability." That, however, is easier said than done.

Foreign share offerings work best when an overseas market places a higher valuation on a company than a domestic market, as these relative valuations are adjusted shares will flow back. As Mr James McClaren, vice-president of Goldman Sachs International, told a recent conference in London: "Some reflow is inevitable in these situations, and it is a mistake to think that the flow of shares can only move in one direction ... Ultimately it can't, or you get 100 per cent in one market."

Stephen Fidler

Research

Shortcomings amid wider choice

OVER THE last year or so, investment banking houses have been pouring out an ever-increasing torrent of research material - seen as key ammunition in their struggle to gain an edge in the fiercely competitive business of international share dealing.

The US houses in particular have recently made a concerted and costly drive to build up research teams covering global markets, presenting a new threat to the UK houses whose overseas research output was established some years earlier.

But though the choice of research material is widening by the day, fund managers still find significant shortcomings, both in terms of the subjects covered and the quality of the analysis.

As far as geographical coverage goes, investment banks have focused on the continental markets as the most fruitful area for new research, while they have also been making a drive to cover the Tokyo market.

In contrast, the US and the UK have been seen as so well-worked over already that a newcomer would have little to add - although the US houses have been unable to avoid covering London as part of their European work. Hong Kong was also already extensively analysed by London-based houses, notably James Capel, the UK stockbroker, and Security Pacific Hoare Govett.

In Japan, newcomers such as Salomon Brothers International have made strides forward but many houses' efforts have floundered on the "culture gap" between Japanese and Anglo-Saxon share dealing.

This is because the Tokyo market has been moving not on the valuation techniques normally used by western analysts, but on the buying decisions of the big Japanese securities houses, wielding the vast sums of domestic savings they have at their disposal.

As one fund manager said: "Japanese research seems to be louey to our eyes, but on the other hand it is likely to be right in the short-term, just because of the market muscle of the big securities houses. So, longer-term, US and European style research tends to be irrelevant."

Nevertheless, many houses are still striving to get to grips with the Japanese market, even though this means incurring the considerable cost of hiring Japanese nationals. Morgan Stanley, for instance, has just recruited its first two Japanese analysts in Tokyo.

The European markets have been seen as providing greater opportunities, both because they are more accessible to US and UK analysts and because the quality of continental research - aside from that of some independent research companies such as the French Atlantic Finance - has often proved inadequate.

This partly reflects the fact that the job of analysis has generally been regarded as an entry position, rather than as a career in itself as in the US and UK. As one fund manager said: "Some of the translations we used to get were abysmal."

However, European researchers, fearing loss of orders to the London market where many of the main continental stocks are now quoted, have recently been spurred into beefing up their output.

The traditional line taken by the UK houses has been to use country specialists to cover continental shares; more recently, however, they have been supplementing this by giving UK sector analysts responsibility for key European stocks as well.

The US houses have followed on from this approach, often making it part of their more ambitious plans to cover companies on a sector by sector basis across country borders worldwide.

Nevertheless, fund managers still find much European industry specialist research inadequate - not surprising, in view of the difficulties US and UK analysts encounter in covering European markets.

As in the Tokyo market, it can be hard to find the right calibre of national to research the continent from London, since analytical abilities have not traditionally been fostered in Europe. And European companies, unused to searching questions from analysts, often prove unhelpful.

Meanwhile, the differences between European accounting conventions and those in the UK and the US can baffle the Anglo-Saxon analyst. As Mr Max Hopfl, head of Robert Fleming's International Portfolio Group, said: "I don't believe any one has really got to grips with the banking and insurance sector properly yet."

Another approach to investment research has been the attempt to provide broad strategic advice on allocation of funds between different markets; a number of UK houses, such as Warburg and Morgan Grenfell, appear to have carved out reputations for themselves as providers of strategic advice within the European markets.

But it is mainly the US houses that have attempted to tackle the wider field of worldwide asset allocation, aiming to produce a true "global strategy" product. Morgan Stanley in New York, for instance, employs a "worldwide investment analyst", Mr Barton Biggs.

However, fund managers often find this type of advice superficial. As Max Hopfl says: "Broadly, the US houses have the best handle on how to devise a strategy product but they also have the least sensitivity to individual market forces."

But fund managers say it is sometimes possible to construct a composite "strategy product" by combining the strengths of different firms. Goldman Sachs' advice on currencies, for instance, or Phillips & Drew's economics research, can be combined with another firm's company or industry work.

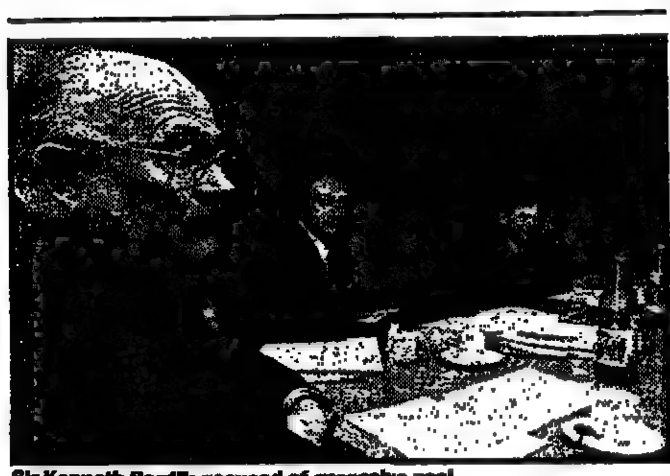
The main area in which fund managers see great improvements is quantitative research. Particularly noteworthy is Morgan Stanley's data base, Capital International Perspective, which provides 60 indices ranging from global industries and individual markets to the world. However, Morgan Stanley now faces competition from ventures such as the FT-Actuaries World Index, jointly funded by the Financial Times, Goldman Sachs, and Wood Mackenzie.

Objectivity of research material is clearly crucial to the investment banks, fearing loss of orders as a result of analytical output which is clearly distorted to fit in with their corporate finance activities.

Yet fund managers say they are increasingly concerned about the objectivity of research, especially as European companies become more frequently involved in international capital raising activities, arranged by London-based investment banks.

This suggests that there could be niches in the market for more independent research operations, like Detroiyat and Atlantic Finance in France. However, since fund managers would have to pay for such research with hard cash rather than by commissions, it would have to prove significantly superior to that supplied elsewhere.

Clare Pearson



Sir Kenneth Berrill: accused of excessive zeal

Analysis

Conflicts of value

RARELY IN the history of human endeavour has so much analytical firepower been hurled with such intensity, and over such a short time span, at a single development: the globalisation of portfolio investment.

Yet one crucial aspect has gone curiously under-debated. That is the problem of value; how to establish an acceptable technique for valuing companies and, indeed, whole markets, which takes account of discrepancies in taxation, accounting standards, and other peculiarities, across national boundaries.

Eventually, no doubt, the problem will generate as much learned discussion as the "value problem" chewed over by the classical economists 200 years ago. For the time being it seldom ventures beyond the footnotes or appendices of the securities houses' international research documents.

When a UK electronics company is described as cheap compared with an Italian one, or, more commonly, the Japanese market is said to be "absurdly over-valued" compared with any other market in the world, an unbearable weight is being placed on that flimsy tool the p/e ratio.

The "e" of the conventional p/e has been dogged not just by national differences in, say, the consolidation of subsidiaries, but by entirely distinct principles of company financial reporting. Crudely, the accounts of US and UK companies are directed mainly at current and potential investors and thus tend to provide a realistic estimate of earnings (if not somewhat flattering, especially during takeover booms). While German and Japanese accounts are drawn up with the tax authorities in mind and conservatively understate earnings, thus inflating p/e ratios.

Sophisticated international investors have long been aware of these problems and have developed several alternative valuation methods, such as dividend ratios or net assets to share price. But the favourite is the *cash earnings to share price ratio* (cash p/e), which adds back to post-tax earnings non-cash items such as depreciation (and other provisions), so limiting the effects of cautious accounting.

This multiple is also commonly employed by domestic investors and corporate raiders in the US to strip away accounting sleight of hand. Indeed, the Financial Accounting Standards Board in the US is about to give cash-flow reporting a new respectability by insisting on standardised reporting for 1988 annual reports.

At the international level, cash p/e's have an added advantage over the traditional kind in accounting for differential inflation rates. However, they also have their limitations. Like straight p/e's they do not account for differing tax rates or the vagaries of extraordinary and exceptional items. Also, because the depreciation sum is an indicator of capital intensity, cash p/e's tend to be artificially high for service industries and artificially low for manufacturers.

This sectoral bias has implications for market p/e's, as some economies have a higher concentration of capital intensive industries than others. And, unless share prices adapt to take account of the new valuation tool, it will produce ratings that are simply the inverse of the currently dominant p/e ratios.

This is well illustrated by applying the two systems to the prospective ratings of the main European markets: using traditional p/e's Italy comes top, followed by France, Switzerland, W Germany and finally the UK; while, using cash p/e's, the order is exactly reversed. We thus have the bizarre outcome of different slugs of international money rushing in opposite directions, driven by the same quest for undervalued markets.

A further refinement of the cash p/e, the free cash flow multiple, seeks to iron out some of these problems. Free cash flow starts with the cash flow and then deducts only the capital expenditure needed to maintain the business. The obvious difficulty here is that maintenance capital expenditure is an extremely complex and subjective thing to calculate. But even if analysts could agree on an efficient cross-border tool, and even if the world's dominant companies continue to internationalise their productive bases and harmonise their accounting standards, there are likely to remain irreducible national peculiarities in company and market valuation based on the *prejudices of the dominant, presumably* domestic, investor base.

Some peculiarities are, or ought to be, reducible. For example, Warburg Securities has recently pointed out that, because most large Japanese companies are partly investment trusts (by virtue of their cross-holdings), the standard estimates of market capitalisation are greatly exaggerated by double counting. In fact, because almost half the shares quoted in Tokyo are beneficially owned by other companies, the value of the market may be half its apparent figure.

Applying the cash p/e formula to Japan drags it down from the usual level of around 60 to as little as 16. If double counting is then eliminated, Japan ends up on a lower cash p/e than the UK or the USA. Some of those fund managers who took the costly decision to pull out of Japan last year, when it appeared to be running out of control (by traditional p/e valuations), must now be wishing somebody had persuaded them of the usefulness of this analysis.

Warburg's Japan analysts do not dare to follow their own logic and declare the market cheap. However, they do point out that the combination of investment trust, property company and commercial business in most quoted companies, together with low inflation, conservative accounting and low pay out ratios, helps explain why Japanese companies still appear cheap in relation to their underlying asset values but very expensive in terms of published earnings.

The Cash p/e is becoming increasingly popular among international investors; and the growing foreign exposure of Japanese, and especially US, investors will soon make it as familiar as the traditional p/e. However, in the medium-term it may remain as useful within, as between, markets. That is because global sectorisation - picking the best companies in a sector regardless of their national base - is still in its infancy.

The majority of fund managers will continue to take a two-step approach to investment; first deciding which countries they wish to invest in, on the basis of macro-economic indicators, and then picking the sector or stock. In that case the fact that traditional p/e ratios provide faulty cross-border information is not too worrying as long as they are a good guide to values within a market.

David Goodhart

Regulation in the UK

Grave doubts about the rule books

LAST YEAR's Big Bang and the reform of the London securities market which followed triggered the most comprehensive review of securities regulation ever attempted in a major financial centre.

Within the space of 12 months, an entire new regulatory superstructure has been created. But while this might sound like a major achievement, the exercise has been fraught with controversy, and even now it is doubtful how viable the new regulatory system will be.

Cries that the new rule books will be far too burdensome and will drive business away from London are increasingly heard. There have even been calls for the resignation of Sir Kenneth Berrill, the chairman of the Securities and Investments Board (SIB), which is in overall charge of regulation.

Much of the controversy - ironically - stems from the desire of both the City and the Conservative government to avoid heavy-handed control of the UK financial services industry. The option of creating a statutory body to keep the markets in order and protect investors - something along SEC lines - was rejected. Instead, the UK wanted to preserve the self-regulatory system based on voluntary observance of non-statutory codes which had made London such a successful financial centre in the past.

The basis of this rather novel approach is the SIB, a voluntary body, backed by powers delegated to it by the Department of Trade under the new Financial Services Act. The SIB, in turn, has authorised several self-regulatory organisations (SROs) to oversee particular activities, like securities dealing, investment management and life assurance.

The most important SRO for the equities business is The Securities Association (TSA) which will be responsible for some 700 stock exchange members, and is chaired by Mr Andrew Large, an executive of Swiss Bank Corporation.

The rules produced by the SIB and the SROs concern proper business conduct and disciplinary procedures, and, in the case of firms who deal in securities, the capital requirements.

The Bank of England, which has played a major role in formulating the rules, was keen to use this opportunity to create greater convergence between UK and US regulatory practice, such as it is seeking with the Federal Reserve Board in banking regulation. It suggested that the SIB adopt the SEC's capital adequacy requirements straight off.

But the SIB rejected this idea, partly because it believed the SEC rules were not broad or flexible enough to cover the UK market, and partly no doubt because it wanted to assert its powers. One major difference between the SIB and SEC rules, for example is that UK companies will be required to maintain to equivalent of three months' expenditure in liquid form to aid their solvency.

Many people believe the refusal of the SIB to incorporate SEC rules is was a missed opportunity to harmonise regulation in two of the world's most important financial markets, though convergence may well be achieved later.

The capital adequacy rules for equities provide formulae for calculating the amount of capital backing needed for specific securities positions, based on the diversification of the firm's portfolio and the liquidity of the stocks in it. They are highly complex, which makes them hard to compare with other countries'. The SIB claims that, on balance, they are no tougher than elsewhere, but this is a judgment that is already being challenged.

A delicate problem was created by the overlapping of the SIB's and the Bank of England's responsibilities in cases where the securities dealers are banks. The compromise reached is that the Bank will continue to supervise banks and will ensure that they abide by the SIB's rules. But the SIB, which is not allowed to delegate its powers, will be told when banks are breaking the rules. This may not be a satisfactory arrangement since both the SIB and the Bank could now blame each other if a bank-owned equity dealing business gets into trouble. But neither side was going to yield any turf.

As all these arrangements and rules have emerged, however, it has become evident that the original intention of preserving London's light regulatory traditions has been lost. The rule books produced by the SIB and the TSA were several inches thick and landed with a heavy thud on dismayed executives' desks, and quickly produced an outcry.

Early calculations suggest that the cost of implementing the rules will be enormous, because of the amount of form-filling and staff needed. Even the SROs have been grumbling about the SIB, whose authority they ultimately have to respect. Dr David Lomax, chief economic adviser to the National Westminster Bank, has estimated the cost of implementation at over £100m.

Discontent has prompted some SRO members to complain directly to Lord Young, the Secretary of State of Trade and Industry who is ultimately responsible for implementing the Financial Services Act. Some of their attacks focus specifically on Sir Kenneth, who is accused of excessive zeal. Many firms have raised the ultimate threat of packing their bags and moving their operations to Paris where costs are only a fraction of London's.

Mr John Quinton, the chairman of Barclays Bank, testifying *to a recent hearing of a US Congressional* committee, said: "It must not be forgotten that regulation is the servant of the financial system."

The SIB's response to all the complaints is that the costs will be outweighed by the benefits of improved financial controls in the securities business, and enhanced customer confidence. And though there has been some slippage in its timetable to give firms time to organise their systems, the SIB is ploughing on with its programme.

In October and November, the five major SROs should achieve formal recognition as their rule books are approved, and they will then authorise their members to do business. From next January it will be illegal to conduct an investment business without authorisation. And then later next year various other provisions, such as criminal penalties and the launch of the compensation fund for investors who have lost money, come into force.

David Lascelles

Barry Riley asseses the growth and uses of global indices

Chart makers jostle for top spot

AS MANY as four global equity indices are now competing for the attention of international investors, and more are in the pipeline, in a curious battle for *status* and prestige.

In the end, as is the way with indices, one will probably emerge as top dog. However, there could be room for one or two more in different niches, or to serve rather different purposes, just as the Dow Jones Industrial Average and the Standard and Poors Composite, not to mention the Wilshire 5000, co-exist as rather different measures of the US equity market.

Countries such as Germany and Switzerland have seen battles between rival indices sponsored by competing banks, which naturally are reluctant to use each others' products. Only this year a more neutral index has been launched in Switzerland in a bid to cool down and perhaps resolve that particular index war.

In the UK and the US, indices have tended to be published by more neutral organisations in the field of information services, such as Dow Jones and the Financial Times, and they have not tended to generate competitors.

A national index is relatively cheap to design, calculate and establish, and acts as a useful promotional tool for an organisation like the FT. A global index is a much more formidable undertaking technically and financially, however, and being - for the short term, at least - of only specialised interest, *it is* more difficult to justify the necessary outlay.

The longest-established global index series, the Capital International, was originally developed as an internal exercise back in the 1960s by a Geneva subsidiary of the Capital Group, a low profile investment management group based in Los Angeles. It took on board many of the mathematical features of the FT-Actuaries UK domestic index series which dates from 1962.

For many years the Capital International indices have been easily available on monthly subscription (the "bottom line" world index is published daily in the FT, a day in arrears) and have satisfied demand, despite occasional grumbles by users about certain technical features of this series.

Two factors have triggered the appearance of a wave of competitors. One has been the great increase in cross-border ownership of equities in the past three years or so, especially among American institutional investors.

The other, which was no doubt linked to the first, was the decision by the New York-based investment bank Morgan Stanley to buy the Capital International indices in 1986 from Capital Group.

The new owner insisted on renaming them the Morgan Stanley Capital International indices, thus introducing the branding problem which had afflicted indices in Germany and Switzerland.

Very soon a number of other US investment banks with ambitions in the global equity market initiated plans to develop their own indices. In practice, they have tended to go into partnership with other organisations, usually consultants for financial publishers.

The current state of play is that four world indices have been launched (though the degree of availability varies widely). They are:

● **The Morgan Stanley Capital International World Index** covers 19 countries, for which there are separate indices; and there are other regional indices, of which the EAFE (Europe, Australia and Far East) is the most important. The MSCIWE represents in aggregate about 60 per cent ofthe capitalisation of the 19 national equity markets, and the World Index itself is based upon all 1,375 individual constituents.

● **The FT-Actuaries World Index** is a joint compilation by the Financial Times, the US investment bank Goldman Sachs, and the UK stockbrokers Wood Mackenzie; in conjunction with the two UK actuarial bodies, the Institute of Actuaries in London, and the Faculty of Actuaries, in Edinburgh. An extensive table of statistics is published in each day's FT, with later editions carrying the previous day's figures. This series includes 23 country indices, and the World Index is based upon 2,400 securities representing over 70 per cent of the overall capitalisation.

● **The Euromoney/First Boston Global Stock Index** is produced by a First Boston team, in conjunction with outside academics, and is published monthly in Euromoney. It takes in rather less than 1,300 stocks in 17 national markets.

● **The Salomon-Russell Primary Market Index** is the result of a collaboration between Salomon Brothers and the Frank Russell Company, US pension fund consultants. The index is a combination of the existing Russell 1,000 Index, covering the US, and some 18 other national indices (some smaller countries are grouped together) based upon 600 non-US constituents. Monthly data are to be published by Salomon. A satisfactory means of daily publication has not yet been arranged, although it is an objective.

Besides these four indices, at least two more series are understood to be in the process of development by two more US investment banks, Shearson Lehman and Paine Webber.

Indices may have a variety of functions. One is to provide a general indicator of the ups and downs of a stockmarket on a short-term view, probably focusing on a relatively small number of leading stocks. Another is to provide a yardstick for the measurement of portfolio performance.

Still another is to provide the basis for a stock index future, so that investors can hedge their exposures according to their view of the market as a whole, while complaints that the Capital International indices have drawbacks for performance measurement. Accordingly the newer indices, such as the FT-Actuaries World Index and the Salomon-Russell PMI, embrace the concept of "investibility".

They adjust the weightings for stocks which foreigners are not allowed to buy freely (non-UK investors are not permitted to hold more than 15 per cent of Rolls-Royce, for example) and also take account of unavailable holdings such as the controlling stake held by the Heineken Foundation in Heineken.

The Salomon-Russell PMI index focuses fairly narrowly upon liquid, heavily traded stocks. Salomon also has plansfor a broader version called the Extended Market Index, which would cover 80 per cent (rather than 65 per cent) of the capitalisation available to international investors.

So far nobody has attempted to launch a global stock index futures contract. National stock index futures depend upon continuously calculated indices which would be difficult to reproduce on a global basis across many time zones.

The world's equity markets

National markets by capitalisation as a percentage of the world's total.

	Aug. 1987	Jul. 1987	Jun. 1987	May. 1987	Feb. 1987	Nov. 1986	Aug. 1986	May. 1986	Dec. 1985
Australia	1.52	1.49	1.34	1.32	1.25	1.20	0.94	1.29	1.25
Austria	0.06	0.06	0.05	0.05	0.07	0.07	0.06	0.06	0.06
Belgium	0.57	0.59	0.58	0.53	0.57	0.60	0.55	0.52	0.48
Canada	2.15	2.37	2.16	2.12	2.24	2.24	2.15	2.53	3.00
Denmark	0.18	0.18	0.19	0.19	0.20	0.19	0.18	0.19	0.23
France	2.01	2.00	2.00	2.09	2.15	2.24	2.19	1.91	1.71
West Germany	3.36	3.41	3.32	3.10	3.54	4.74	4.51	4.19	4.90
Hong Kong	0.91	0.93	0.86	0.79	0.88	0.87	0.69	0.71	0.81
Ireland	0.10	0.11	0.10	0.10	0.11	0.08	0.06	0.07	0.07
Italy	1.49	1.69	1.80	1.80	2.02	2.36	2.47	2.26	1.44
Japan	35.48	33.21	34.89	37.60	32.86	30.77	31.82	28.70	22.85
Malaysia	0.08	0.09	0.08	0.08	0.07	0.06	0.05	0.05	0.07
Mexico	0.09	0.08	0.07	0.05	0.09	0.08	0.05	0.05	0.06
Netherlands	1.31	1.40	1.36	1.28	1.29	1.46	1.41	1.39	1.51
New Zealand	0.21	0.19	0.21	0.19	0.22	0.21	0.20	0.22	0.16
Norway	0.06	0.05	0.12	0.12	0.11	0.11	0.12	0.12	0.18
Singapore	0.16	0.17	0.15	0.14	0.13	0.12	0.11	0.09	0.11
South Africa	0.81	0.92	0.79	0.77	0.66	0.63	0.52	0.54	0.64
Spain	0.87	0.81	0.71	0.64	0.76	0.67	0.57	0.65	0.44
Sweden	0.32	0.33	0.31	0.31	0.33	0.35	0.33	0.36	0.33
Switzerland	1.15	1.18	1.11	1.03	1.18	1.43	1.34	1.23	1.31
United Kingdom	9.67	10.45	10.36	9.96	8.41	8.50	8.50	9.09	9.48
United States	37.43	36.28	37.43	35.72	39.87	41.03	41.07	45.73	48.93
The World	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Drawn from the FT-Actuaries World Indices: Copyright The Financial Times, Goldman Sachs & Co., Wood Mackenzie & Co. Ltd 1987.

The Japanese equity market has taken a vastly more prominent place on the international stage in the past few years, thanks to the rise in Japanese prices and the strength of the yen. At one stage earlier this year, it actually overtook the US to be the largest market by capitalisation in the world. The Pacific Basin as a whole has shown significant growth over the period, and now represents nearly two-fifths of the world index.

A paint lab in Slough, but to what extent is ICI a British company?

Passive management

Market hypothesis gains support

AFTER A slow start in the US during the 1970s, passive investment management techniques have soared in popularity in several countries over the last three years. Their growth has been in response to three factors.

The most important has been the mounting academic evidence in support of the efficient market hypothesis. This states that securities, at least the more marketable ones, are consistently priced to reflect the best possible estimate of their economic value. Therefore it is very difficult for active investment managers to outperform stock market average returns consistently by spotting undervalued stocks.

In both the US and UK equity markets, an impressive volume of evidence in favour of the efficient market hypothesis has been accumulated, although a few studies have identified exceptions in some circumstances. More limited evidence from east Asia suggests that there, too, equity markets are much more efficient than conventional wisdom assumed.

For the trustees and sponsors of pension funds, and others who have to appoint investment managers, the experience of the actual investment performance of their funds has had more effect than academic evidence. With the help of the sophisticated performance measurement services that are now commonly used, most have realised that their funds would have achieved higher returns if they had invested passively in a portfolio designed to match the returns on the relevant stock market index.

The second factor has been the emergence of computer software packages which allow investors to select a more concentrated portfolio of shares to match, within a small margin of error, the returns on a portfolio of all the shares making up the stock market index. This development has cut the transactions costs incurred when passive funds have to invest their cash flows, and to reinvest dividends, in all the constituents of an index. The development of futures and options contracts on stock market indices in the US, UK, Japan and Hong Kong has provided a complementary, or even a substitute, method of tracking an index.

The third factor has been the deregulation of financial markets, in particular the removal or reduction of minimum commissions *on dealing in* shares, a trend which began in New York in 1975. High commissions were typically justified by stockbrokers providing the investor with research services which inevitably were of no benefit to passive fund managers. In deregulated markets, however, passive funds can deal on tiny commissions or no commissions at all. Wells Fargo, the largest passive fund managers, with about $80bn of assets under passive management is able to buy and sell most of the shares for its funds free of commission and at, or very close to, their mid-market prices. As a result, the funds' transactions costs approach zero. In fact, the managers are often able to make a net addition to the investment returns of the fund, as a result of the stock lending fees they can earn.

In the US market at present, passively managed funds account for an estimated 10 per cent of the value of equities. In the UK, where the market has only developed since 1984, approximately 3 per cent of listed shares by value are in passively managed funds. In Japan too, where the investment performance of the securities houses, insurance companies and trust banks has always been particularly poor, passively managed funds have begun to emerge over the last two years.

The next stage in the development of passive management is likely to be the emergence of international funds. In the US, the amount of money invested in internationally diversified funds has quadrupled over the last year to about $5bn. Most of the funds are linked to the Morgan Stanley Capital International world index, or rather to a "portfolio" of between nine and 16 different individual country stock market indices compiled by Morgan Stanley Capital International. An alternative set of world stock market indices, launched at the start of this year by the Financial Times and the securities firms Goldman Sachs and Wood Mackenzie, has yet to make an impact on this growing market.

Most US investors overseas aim to achieve a broad exposure to foreign stock markets in both Europe and East Asia, *although some prefer one region* or the other and some prefer to exclude the smaller foreign stock markets.

In the UK, a negligible proportion of money invested in overseas equity markets is managed on a passive basis, although such international funds are now being marketed by the two leaders in the passive management field, Barclays de Zoete Wedd and County bank, a subsidiary of National Westminster.

A more ambitious venture, to set up an internationally diversified passive investment trust, ended in failure last summer when insufficient investors subscribed, although that was partly as a result of the lack of track record and reputation of the managers, River and Mercantile.

The lack of attraction of international index-matching funds may have a better founded reason. Few, if any, UK managers have demonstrated any skill in out-performing individual overseas stock markets, in fact over the last four years, most have fared extremely poorly in both the US and Japan. However, data collected by the US-based pension fund consultants Frank Russell suggests that UK fund managers may have been able to add value by their asset allocation decisions between different currencies, countries, equities and bonds.

This conclusion lacks the rigorous statistical backing of the efficient market studies. But it seems plausible to suggest that, even if stock markets are internally efficient, markets may not be correctly priced with respect to each other, allowing the shrewd active manager to exploit anomalies. Perhaps this demonstrates the potential for an investment house to offer a range of passively managed funds, one for each country which would allow active managers to switch between them.

Clive Wolman

Fund management

Fewer controls, wider game

ONCE, INTERNATIONAL equity investment was primarily the preserve of institutions in small countries. Fund managers in Holland, Switzerland and Scotland looked abroad simply because the domestic opportunities were so limited.

But the phenomenon of the 1980s is that even US institutions are starting to take global investment seriously, though at this stage the foreign stock segment remains a minor aspect of American portfolios.

For investors in many countries, of course, political restrictions have been imposed on their ability to buy foreign stocks. It is only eight years since exchange controls were lifted in the UK, and French liberalisation has been much more recent still. But the trend is very definitely in the direction of removing controls, except for Third World countries.

Given freedom of choice, arguments rage about what is the appropriate proportion of a portfolio which should be invested abroad. Usually the more conservative institutions, like pension funds, start with a rule-of-thumb target like 5 or 15 per cent, then gradually move to a level with which they feel comfortable.

UK pension funds, for example, increased their overseas equity exposure to the extent that the average pension fund securities portfolio (excluding property) incorporated nearly 25 per cent in foreign stocks at the end of 1986. So far in 1987, however, this proportion may have eased back to nearer 20 per cent because of the good performance of UK equities.

Some purists argue that fund managers should take a purely global stance, and so their logical exposure to their domestic market should be in proportion to its contribution to the capitalisation of the global market.

This would leave US pension funds - which so far are only in the tentative 5 per cent bracket for overseas investment - with a target of, say, 60 per cent of their assets abroad. As for UK pension funds, they would only hold about 7 per cent in their domestic market.

Another theory says that funds should aim at an overseas proportion which corresponds to the proportion of foreign trade in the country's economy.

US financial market theorists tend to look at the problem in terms of its risk-and-return effects. Spreading assets across different national markets will add diversification and will give a better risk-adjusted return, depending on the degree of correlation between different national markets.

To an important degree, the internationalisation of companies has changed the debate. To what extent are ICI or Glaxo British companies? Most of their sales are outside the UK, and they also have foreign share listings and large numbers of foreign shareholders.

One type of "top down" fund manager would much prefer companies to remain small and national, so that he can make global asset allocation decisions of a kind that will fundamentally change the orientation of a portfolio.

But the way international industry is developing, it may soon not make very much difference in terms of national exposure whether a fund invests in ICI in London or Du Pont in New York.

Purely practical factors also influence the global professional investor. For instance, the availability of information has improved with the development of worldwide communications, but the quality of data still leaves much to be desired in many countries.

Then there are all the hazards of dealing and settlement, which have caused many funds to blacklist countries like Italy.

On the other hand, there is now a growing number of markets which are accessible to global investors, and which offer useful opportunities. International fund management has therefore become a potentially more rewarding exercise for those wishing to make the effort to get to know and understand markets around the world.

There are markedly different styles of global fund management. Some big managers try to replicate the pattern of the markets, setting up branches around the world and feeding local information into some kind of global asset allocation model. Others adopt the opposite approach, sitting in one office and trying to make sense of all the data as it comes in from around the world.

Managers who are stock pickers will find it essential to keep their ears close to the ground, and so will need an expensive network of offices. But many international managers adopt more of a broad brush approach, focusing more on currencies and country weightings than they do on individual equities. This is, of course, a cheaper approach, though a fair amount of travelling may be required to make it work.

The extreme case is the management of global index funds, which is entirely a statistical exercise. Two London fund management companies, Bankers Trust Investment Management and County NatWest Investment Management, have launched their first client portfolios based on the FT-Actuaries World Index.

Although the index has more than 2,000 constituents, both managers have limited the number of direct holdings to 180-200, and are relying on sampling techniques and the use of stock index futures, in those countries where it is possible, to permit close tracing of the World Index on an economical basis.

International fund managers are now being pursued by the big securities firms which have set up their own global networks and are attempting to sell trading services world-wide on a 24-hour basis, as well as to distribute new issues on a multinational basis.

But do institutions really need a local market in global equities in their own time zone? Mr Jacob van Duijn, research director of Robeco Group, seems unenthusiastic. He says it is no great inconvenience for his Japanese fund managers to be in the office early in the morning and his US team until 8 p.m.

Robeco has been running global funds out of Rotterdam for more than 50 years. Perhaps it is untypical, in that it has had many years to build up its own lines of communication to local markets world-wide. And as an institution with a long-term approach Robeco is not inclined to trade actively or hastily.

Will global trading offer new opportunities? "It will be a matter of experience, depending on how liquid the markets are and what the volume will be," says Mr van Duijn. "For us it's very simple. Wherever we can get the best deal, that's where we will go."

Barry Riley

Settlement, one of London's biggest problems since Big Bang, is also causing anxiety in other markets

Slow steps in the paper chase

THERE ARE images calculated to send a cold shudder down the spine of international investors struggling to keep afloat against a tide of settlement delays.

The sight of Portuguese messengers processing from one Lisbon bank to another loaded down with share certificates, for example; or of stock being shuttled by the hundredweight along the causeway between Singapore and Malaysia to be stamped by the authorities.

The fact that antiquated settlement practices exist in the same world - and sometimes in the same market - as electronic trading systems that handle hundreds of millions of shares a day is a reminder of how rapidly the global equities market has taken off.

In the past three years, overseas investors have poured into emerging markets, often overwhelming support systems which previously had only to cope with settlements between local clients.

Italy is just recovering from its nightmare. In 1984, foreign and Italian institutions took the small Milan exchange by storm. Turnover at the peak of trading activity in 1986 reached an average L500bn ($385m current) a day, 25 times higher than in 1983.

"The banks' structures were not geared to handle that kind of settlement business, and even the clearing system in Italy was under strain," explains Mr Paolo Azzoni, of Milan stockbrokers Albertini. A flood of rights and bonus issues added to the pressure, with companies having to process share certificates and determine entitlement.

The result was chaos, with some trades left outstanding for 18 months or more.

Things have improved, partly because most banks now have accounts with Italy's central depository, Monte Titoli (literally, "Share Mountain"). Certificates are increasingly held there and transactions recorded by paperless, electronic book entry. But the improvement is also due to dissatisfied foreign investors pulling out. Daily volume is only a fifth of the 1986 peak.

Membership of the depository is not obligatory, so the process of speeding up settlements is a slow one. "For the future the problem should be more or less solved, provided foreign institutions instruct the Italian banks to deposit their shares with Monte Titoli," says Mr Azzoni.

Italy is far from unique. Wall Street suffered a home-grown crisis in the late 1960s and early 1970s; London is in serious difficulties now; and soaring markets such as Australia, Thailand and Singapore all show degrees of strain.

Frustrated foreigners level a variety of accusations at the host market: lack of international experience, restrictive controls, communications breakdowns, vested interests. But this is not the whole picture, as London stockbrokers Savory Millin discovered when they sent a representative to Italy early this year to sort out 600 open trades.

"We took the trouble to go out there to try and learn how they worked their system," explains Mr John Warner, associate director for foreign settlements. "We realised it was a little bit of 50-50. It was partly our lack of understanding of how their system operates that caused the problems... We're down to about 30 or 40 open trades now."

In Spain, another market that has attracted intense overseas interest, Savory Millin detects a lack of urgency as well as of necessary staff. Payment delays at the banks, and currency controls which hold up commissions to overseas brokers, are also a dampener.

"Someone in Spain has to take the bull by the horns and get the governing bodies to put pressure on the local banks and brokers," says Mr Warner.

Problems are also likely in neighbouring Portugal as foreign demand grows, and the authorities there are trying to computerise settlement as rapidly as possible.

While national exchanges can play an important part in clearing backlogs, they may face local obstacles. In some countries, notably in the Far East, settlement systems employ thousands of people who would be thrown out of work by computerisation.

Pressure for change will therefore be most vocal from the international community.

The Brussels-based international clearing system, Euro-clear, believes it has answered many of the problems by offering rapid, secure and cheap settlement. Like its friendly rival, Luxembourg-based Cedel, Euro-clear deals principally in the Eurobond market. But it began an equities clearing service in April 1986, now handles 950 stocks from 11 mainly European countries, and plans to add Singapore, Hong Kong and Japan among others.

Clients, be they banks, brokers or companies, hold an account which is debited and credited electronically. Settlement takes place overnight, in time for opening of business the next day, and is transacted against payment in any major currency. Transactions between two Euro-clear members involve no movement of paper, but certificates can be delivered to a party outside the system if necessary.

Euro-clear, which belongs to the institutions that use it, has been successful in attracting high-profile, internationally experienced institutions, particularly in new issue business such as the Paribas and St Gobain flotations.

It has a more uphill struggle to win over the average market player. Mr Gary Link, Euro-clear equities development manager, says the 500 or so trades they settle each day account for only a small share of the global equities market. "Probably 90 per cent of the market continues to be settled in the traditional way, between agent banks in the two countries concerned and by physical delivery," he says.

Many national markets have their own electronic clearing systems, such as the Kassenverein in West Germany or Sicovam in France. The way forward, many experts believe, is for national stock exchanges to co-operate more closely, establishing a common settlement cycle, for example, and linking clearing systems.

One link has already been established between the International Securities Clearing Corporation in the US and the Talisman clearing system in London.

Eleven New York securities houses are now directly hooked up to London, settling their UK equity trades through Talisman, says Mr Bernie Till, head of projects for London's foreign equity market.

An equivalent westbound link is in the final stages of testing, and three London firms already use a link with the clearing system of Chicago's Midwest Stock Exchange. This, according to Mr Till, removes the risk of a trade failing, and significantly cuts the settlement cost - from an average £30 ($49) through an agent bank to less than £10.

Meanwhile, computerised systems are being set up independently like Fitel's Equinet and Reuters' Instant-link, which enable all parties to a transaction to monitor it from the time the trade is agreed through to settlement.

So the solutions to the paper chase are emerging, albeit in a slow and piecemeal fashion. As Mr John Kinnaman, the new American director of global equities settlements for the UK securities firm, County NatWest, puts it: "We will not have a global system dropped on the world that we can plug into and settle all trades through - well, probably not until the year 2050. We're going to be stuck with managing settlement difficulties for some time to come."

Alison Maitland

Small deals suffer

THE SUCCESS of the first year of the deregulated securities markets in London, and its development as the centre of international equity trading, has in recent months been threatened by a problem which few foresaw: a massive backlog of unsettled bargains.

A Stock Exchange task force first highlighted its seriousness in July, just as shares and the volume of share trading were rising to their peak. The Exchange issued a letter to securities firms, outlining a wide range of measures and penalties against firms with particularly large backlogs of paperwork.

Since then, the problem has been alleviated. The volume of share borrowing on the fortnightly account day - the first deadline for settling bargains, which provides a good indicator of the difficulties of settling bargains - has fallen from a peak of about £4bn to about £2bn. The improvement was partly as a result of a decline in share trading in August as the market slumped sharply. Extended bouts of evening and weekend working by settlements staff, and measures introduced by the Stock Exchange, such as the setting up of a centralised share certification service, have also helped.

Consequently, the risks have receded of a Stock Exchange firm being pushed over the brink into insolvency by being forced to borrow excessively to finance delays in receiving payments against the delivery of shares as a result of unsettled bargains. But the full costs of the settlements crisis, in terms of lost clients irritated by the inefficiency and the delays and inflated wages and overtime payments to settlements staff, will continue to be felt by securities firms for a long time.

In particular, the difficulties and costs of settling small bargains has meant that the benefits of the Big Bang deregulation, in terms of lower commission rates and more efficient execution of deals, have failed to filter down to the small investor, whom the Government is seeking to encourage. The minimum charges for buying shares, £20 or 1.65 per cent, are as high as before Big Bang. The two leading cut-price services for small investors, offered by Kleinwort Grieveson and Hoare Govett, had to be curtailed earlier in the year when the firms' back offices could no longer handle the volumes.

Although much of the criticism has been directed against company registrars, for failing to issue certificates in the time scale prescribed by the Stock Exchange, most of the blame rests with the Stock Exchange and its member firms. An upsurge in trading volumes after Big Bang was predictable, in fact essential to make up for the cut in commission rates. Previous cuts in dealing charges, for example the halving of stamp duty in 1984, had led to strong increases in volume.

But at least, until the last three months before Big Bang, the newly-formed securities firms, typically lacking any experience in managing a low-margin, high-volume paper processing operation, paid little attention to the organisation of their back offices or to recruitment and training. Their efforts were focused on building up effective teams of researchers, salesmen and traders equipped with the latest computer technology.

The London Stock Exchange has suffered before from large backlogs of unsettled bargains as a result of an upsurge in trading volumes, in particular in 1968 and 1972. The paper mountains were never as large as in New York where, in 1968, the Stock Exchange was shut down every Wednesday for nearly a year. But out of the 1968 crisis in New York emerged a new automated settlements system, and the development of a pyramidal system of nominees under which all a company's shares are held in a central depositary. This cuts down drastically the number of movements of paper, and allows accounts to be debited and credited automatically with cash or shares.

By contrast, London failed to keep pace with these improvements. As a result of the bear market in the mid-1970s and the conservatism of the partnerships that made up the membership of the Stock Exchange, protected by a price cartel and a web of restrictive practices, the only innovation was the long overdue introduction of Talisman in 1979. This replaced a complex system, of passing tickets from broker to jobber to broker for every bargain, with a centralised computer system and nominee account run by the Stock Exchange, through which all shares pass in the course of settlement.

However, no central depositary system developed, except for some overseas stocks, in particular South African and Australian stocks, traded in London. And the introduction of Taurus (the Transfer and Automated Registration of Uncertificated Stock), which will end the use and transfer of share certificates in the settlement process, has been delayed until the end of 1989 at the earliest.

Some settlements specialists and consultants with experience of the New York system criticised the design of Taurus. Mr Robert Apfel argues that Taurus will be too complicated, because it merely attempts to replicate the existing system in electronic rather than paper form. A much simpler system could be introduced in six to nine months rather than two to three years, he says, which would be modelled on the US central depositary and nominee system.

He has suggested to Treasury officials that the Government could help to ease the settlements problem and reduce the costs of share-buying for small investors by making the next of its privatisation issues in certificateless form, with all the shares held by a central depositary. Small investors could then open share accounts with their banks.

There are three main objections to such a reform. One is that a company could no longer easily check its list of shareholders, although even at present 80 per cent of shares in major UK companies are held through nominees. In the longer term, on-line computer technology could allow company officials and outsiders to tap their way through the layers of nominees to find out the ultimate owners.

The second objection is that some shareholders like holding share certificates, although such individuals could still be accommodated, for a substantial additional charge.

The third objection is that the system would require banks to send out annual reports and company letters to the shareholders who hold accounts with them. Although, in principle, the companies could reimburse the banks for taking on this administrative burden, securing agreement between all the affected parties would take a long time.

Clive Wolman

Quotation systems

The electronic route to equity

MODERN computer and communications technology is critical to the successful creation of a global equities market.

By definition, the players in a global market are geographically far apart. Yet any securities market based on the principle of competing market makers is only at its most efficient when every participant has access to the same price information at the same moment.

Without such an equitable distribution of prices, the quality and integrity of the market would be open to doubt. Only modern information technology can create the kind of systems able to fulfill these conditions. And even with the best technology available today, creating an efficient and foolproof price distribution system is no cheap or easy matter.

One problem, according to Mr Paull Robathan of Infact, a London-based dealing room consultancy, is to ensure that trading is not upset by delays in the quote system: "Every dealers' request must be met at the same time. If the system is 15 seconds slow and a price changes, you can be hit before it will accept a new instruction," he warns.

Reuters, the UK-based financial information company, has spent millions of pounds over the years to develop the high speed data transmission network ("Integrated Digital Network") it uses to run its "Equities 2000" service, launched in May this year to serve international equities markets.

ADP, a fast growing US computing services company with significant interests in financial information has spent "megabucks", according to observers, in developing its international equities service. According to Mr Ralph Koehrer, managing director of ADP Financial Information in London, within 18 months ADP expects to have 120,000 quotes price display terminals in place. Deals with Merrill Lynch and Shearson Lehman should ensure that it overtakes its chief competitor in the US, Quotron.

The London International Stock Exchange is pressing ahead with development of its "Seaq International" service, its price display mechanism for international equities. It now shows over 600 prices and the intention is to display over 1000.

Mr Michael Moore, head of foreign equities development, says developments include the implementation of international standard communications interfaces so the system can be linked into European networks.

It is also developing the ability to show the size in which a stock is offered, and experimenting with new indexes to show at a glance the behaviour of particular markets.

The competitive position is complex. To some extent, all the exchanges based on competing market makers compete in offering their price information, but this picture is becoming blurred through co-operative moves.

The US unlisted securities market, NASDAQ, for example has a reciprocal agreement with the London International Exchange for share price information. Seaq International is likely to offer its prices in the US through other quote vendors.

The most interesting developments, however, are those designed to take companies into the area of providing a full dealing service. The managers of Seaq International, for example, are already beginning to wrestle with problems of deal transmission and settlement on an international basis.

Reuters, is moving fast and aggressively to secure its stake in this area. Equities 2000 (and the complementary Commodities 2000) was designed to provide quotations for every instrument traded on every significant stock, commodity, options and futures exchange in the world.

The secret is the Integrated Data Network which Reuters has been developing over five years. It offers speed and flexibility through the use of advanced digital (computer language) techniques. Satellites are used in Europe to deliver quotes at a speed of 64,000 binary digits a second to distribution centres in Paris, Geneva, Frankfurt and Amsterdam.

Reuters already has an automated deal execution system through its ownership of Instinet, a US share trading system with the potential for expansion to markets outside North America.

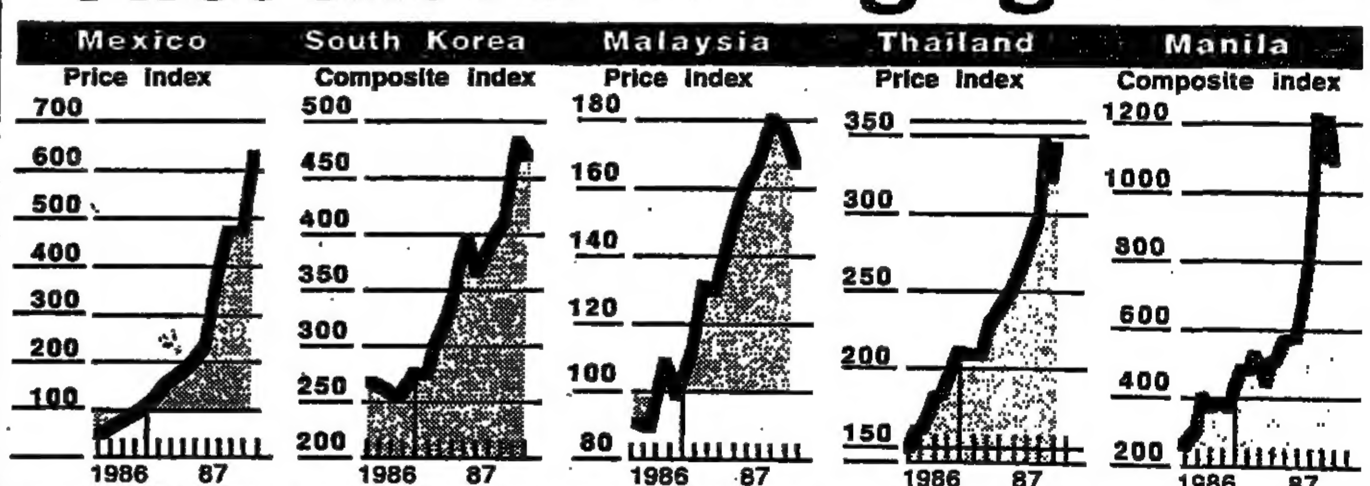
So the pieces are falling into place. One pointer to the kind of developments which can be expected in electronic global markets is the agreement in principle last month, signed between Reuters and the Chicago Mercantile Exchange, to create a global electronic automated transaction system for the trading of futures and futures-options before and after regular US business trading hours.

It seems likely that within a few years only a small number of large quote vendors with the resources to survive in, and supply, global markets will remain. The likely contenders are already making the necessary alliances, takeovers and mergers to secure their position.

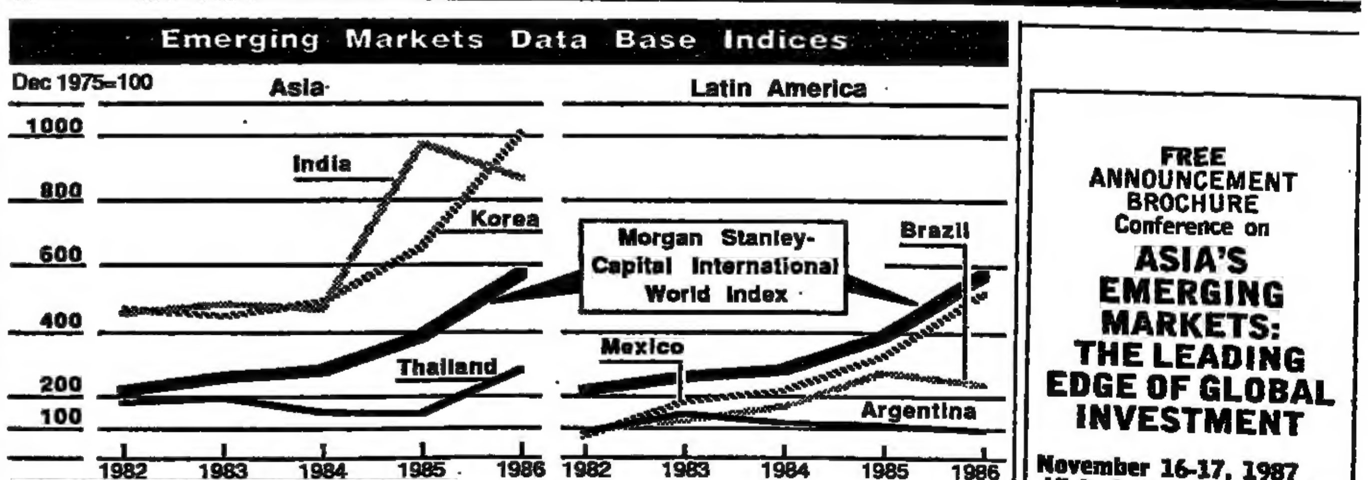
Alan Cane

Third World stock markets

First shoots of huge growth



Source:FTA-World indices Source:FTA-World indices Source:FTA-World indices Source:Vickers da Costa Source:Vickers da Costa



Source: The IFC Emerging Markets Data Base

INTERNATIONAL finance, like the clothing trade, has its own fashions; and it is not easy to tell a passing fashion from a real trend. The present interest in young stock markets is a case in point.

Collectively, the so-called emerging markets (not including mature exchanges like Hong Kong) represent a small fraction of total world equity, and an even smaller fraction of the big pension and investment fund portfolios - perhaps $1bn of the estimated $2.7 trillion (million million) they manage.

But according to brokers and World Bank analysts, investor demand is very strong and certainly greater than the available supply. A beauty contest organised this year by a financial magazine, in which a hundred portfolio managers were asked to nominate their favourite undeveloped markets, saw South Korea emerge a clear winner, with Taiwan second. The rest of the field was led by Portugal, followed by Mexico, Thailand, Brazil, Greece, the Philippines and India.

More rigorous projections by the International Finance Corporation, the private sector arm of the Bank, suggest we are now seeing the first shoots of a huge growth. By the end of this century, according to these calculations, the combined capitalisation in 35 "new" countries will have multiplied five or six times from its base of $130bn. The same sort of expansion is forecast for the number of listings, the number of investors (foreign as well as domestic), and the number of stocks traded internationally.

Investor demand is being stimulated by the sight of growth rates, especially in Asia, of more than double the European or American average; and it has not gone unnoticed that Japan actually registered nil growth in the last quarter. The steep rise in the value of the yen has accentuated the competitiveness of Japan's manufacturing rivals in Asia, and hence the investor's desire to get a slice of the action. Some of the stocks they are buying are of Japanese offshore ventures, and a lot of the money going in is of course Japanese.

Soaring prices in London, New York and Tokyo have also encouraged investors to look at

Continued on facing page

Profile: Hoare Govett

The transnational approach

HOARE GOVETT, the international equities arm of the Los Angeles-based commercial bank Security Pacific, has built a strategy for the global equity market on the premise that it doesn't exist.

Of the idea of an enormous equities market with 24-hour trading, Mr Richard Wilson, executive director of corporate finance, says: "If it happens, it's going to be a long, long way down the line.

"We see the world as made up, for the time being, of separate domestic markets, among which it is possible to form effective links. We are not looking for an easy route to the global market. We are looking to make a lot of money for ourselves and our clients for the next five years or so by finding answers to the many obstacles that stand in the way."

Mr Dean Lundell, chairman of Security Pacific Hoare Govett, which covers most of the international merchant banking and securities trading business of the bank, describes the bank's plan thus: "Our strategy is to become very strong in a number of indigenous markets. It's not a multinational approach, it's a transnational approach.

"We have tried to make investments in firms that are very strong in their own domestic markets because, frankly, the bulk of equity business in a market is domestic investors buying domestic securities. We hope that we can add an international layer on top of that."

Run from London, the bank's international securities business now includes stockbroker Hoare Govett in the UK (83 per cent owned), McIntosh Hamson Hoare Govett in Australia (34 owned), and most recently Burns Fry in Canada, where it took a 30 per stake, which it expects to increase to 50 per cent in three years. Hoare Govett has a branch office in Tokyo and a strong position in the Hong Kong and Singapore markets through firms in which it has significant stakes.

"We think that compared with the other American banks, we are unique because of the commitment we have made to the equities business. We think this is the thing that will make us a broad-based investment bank in the future and allow us to offer all the financial services that clients may want," says Mr Lundell.

In building a global business, the firm still admits it has some weaknesses. Because the firm has concentrated on secondary market activity in domestic markets, it is not a strong player in the international new issues market for equity, partly because its constituent parts had little strength in the Eurobond market.

"I would hope that over a period of time we would see ourselves more and more active in the global arrangement and syndication of equity offerings," says Mr Lundell.

"I'd be very surprised if, within the next 12 to 18 months, we didn't have a major US brokerage firm as part of our worldwide network."

More significantly, other weaknesses are geographic. Ironically, but not surprisingly because of the limitations placed on commercial banks' activities in the US securities markets, one of these areas is Security Pacific's home turf. While both Burns Fry and Hoare Govett have sizeable New York operations, its capacity in the world's most important stock market is still limited.

The most critical elements still forbidden to the banks concerns the underwriting and distribution of securities. But, according to Mr Anthony Greayer, Chief Executive of Hoare Govett, that will not prevent the bank adopting a dramatic - and typical solution - to the problem.

"We did have it in mind to make an acquisition in the US within 1987. That was part of the plan, but the Canadian authorities programme of deregulation was accelerated considerably and we had to put Canada on the front burner.

"Nonetheless, I'd be very surprised if, within the next 12 to 18 months, we didn't have a major US brokerage firm as part of our worldwide network. We don't want to build one up de novo."

The key to that acquisition will be a high-quality US research product, to market to institutional clients in other markets, and good access to an investor base, he says.

The other weakness (and it is far from alone among western securities firms) is Japan, but here the firm believes the acquisition approach will not be effective. "It's one of the great weaknesses in our armoury. But it's not a weakness we should try to rectify by reckless spending," says Mr Greayer.

A seat on the Tokyo Stock Exchange would involve a significant upgrading of the firm's Tokyo office, the reward for which would be an increased share of the total commission on each trade. Mr Greayer believes that going it alone may not be the answer: "There may be another approach. What about tying up with someone who can assure one of sufficient business to cover its overheads? Is some form of joint venture possible?"

The firm is also moving to bolster its position in continental Europe, but believes acquisitions there might not be the right course. It has looked, for example, in France and decided against buying a broker. The Burns Fry acquisition has helped the company gain offices in Europe, though, to which Hoare Govett hopes to add new products.

So is the bank satisfied with its acquisitions so far? Mr Lundell says: "Our approach has been to make investments in firms that are themselves doing well and have very strong management. We don't acquire companies with management problems."

The Hoare Govett acquisition, he says, has been a success. "We have brought Hoare Govett very much into the management of the global business and the development of the strategy to go forward. We like to think of it more in terms of a partnership than an outright acquisition."

"I think it's generally felt in the City that we have probably got the best arrangement of anybody who's done this. I think this is reflected in terms of the lack of turnover of staff and the level of profitability we have been able to achieve, which we think has been quite exceptional in view of what's been happening elsewhere."

London too, the bank believes, is a better spot than Los Angeles to co-ordinate its international securities business. That is because of the time zone, but also because of the numbers of people the international merchant bank employs in London (about 1,500) makes for what Mr Lundell calls critical mass.

The level of competition in the international securities markets is a source of concern. "But Security Pacific is very strong on diversification. This should help protect us from whatever downturns occur in these very volatile businesses," says Mr Lundell.

Mr Greayer adds: "Come the worldwide bear market, which I guess has got to happen, business will be more limited. But it will be the firms which are strong domestically who will get it."

Stephen Fidler

Country funds

Useful ways to bring in foreign currency

CAUTION HAS long been the by-word for those involved in setting up and advising on so-called "emerging economy" funds, which can offer investors a potent mixture of risk and a significant longer-term return.

But, for developing countries, such funds have been a useful means of attracting foreign investment, particularly in the case of stock markets that have hitherto remained closed.

While the steady birth of new country funds and the growth of existing ones has revealed the continuing appeal of this avenue of equity investment, there have been recent moves, too, to link such funds to debt-equity swaps by countries labouring under their burden of foreign debt.

The International Finance Corporation, the private enterprise arm of the World Bank, last month disclosed that it was discussing with several developing countries the establishment of funds that would channel debt-equity swaps into a portfolio of equities rather than individual investments.

Sir William Ryrie, executive vice-president, said the countries with which discussions were under way included Chile and Mexico - which already have well-established debt-equity swap programmes.

A Philippine debt-equity swap has already been established, but its launch has been delayed by a number of factors, such as the accounting treatment by US banks of shares in the fund, which serve to illustrate the difficulties faced by such projects.

But the IFC's attempt at "wholesaling" debt-equity swaps is part of its wider purpose of promoting equity investment in developing countries.

Country funds, in which the IFC has played a pioneering role, have gone some way towards encouraging such investment.

"The IFC has to a very large extent used these funds as visiting cards for countries into the international capital markets," says Mr Michael Barth, division manager, capital markets department. For that reason, a great deal of time, effort and negotiation with the government concerned had gone into the launch of each country fund, he said.

The latest such fund, managed by Merrill Lynch, Morgan Stanley and Arab Malaysian merchant bank, is the $86m Malaysia Fund, that was listed on the New York Stock Exchange on May 8.

However, the Malaysian fund is a "different animal from other funds it has helped to launch, according to the IFC, as Malaysia already has an extremely open stock market.

Countries in which investment banks can operate freely do not generally present problems for the launch of such funds, as the banks themselves are keen to get involved.

But the fear of the unknown remains a major factor concerning the banks, according to the IFC. Six months before the launch of its first country fund in 1984 - the Korea Fund, lead-managed by First Boston - the IFC found it had little or no support for the fund in the international capital markets.

The Korea Fund has since steered $100m into the Seoul stock market. It was succeeded by a $50m Emerging Markets Growth Fund that was a private placement managed by The Capital Group in Los Angeles, and the $30m Thailand Fund organised with Morgan Stanley and Vickers da Costa.

The IFC was not the first into Korea, however. Merrill Lynch was lead-manager for the Korea Trust launched with $15m in 1981, and increased by $10m to total $25m in 1984.

Merrill has also been active in the launch of other country funds, including the Bangkok Fund of $10m in August 1985 which is London-listed.

Launched at $10 a share, it is now trading at $42. The net asset value of the Bangkok Fund rose by 140 per cent from June 30, 1986, to June 30, 1987, according to Merrill Lynch.

Following the pattern set by the Korea Trust, Merrill Lynch's India Fund broke new ground in July last year by allowing a means for indirect international investment in that country. It also provides a good example of a country fund that is not just aimed at the institutions.

The idea for the fund was first mooted by Merrill in late 1984, and institutional investor response was sufficiently enthusiastic to warrant an increase from £30m to £40m.

In early 1986 it was revised once again to £60m, and again to £75m at close of applications on August 15 last year, after demand for shares had exceeded 200 per cent of the original issue.

Acknowledging a high exchange-rate risk inherent in the fund, Merrill Lynch says its net asset value, from the beginning of September last year to August 13, 1987, has risen 25.5 per cent in rupee terms and 13 per cent in sterling terms.

In marketing the India Fund, Merrill saw itself operating under one major constraint: the Indian Government had established an investor spread requirement that two-thirds of the shares in the fund be allocated to institutions, and one-third to individuals.

Such constraints could become more common as developing countries ensure that such funds serve their purpose - in the case of India, the target group of investors were non-resident Indians with cash to spare.

Marketing country funds can also be a problem in the US if the funds are not registered with the Securities and Exchange Commission.

SEC-registered transactions also require a clear explanation of the risk involved, a feature the IFC incorporates in any case in funds it helps to launch.

"We never hold out that these markets offer a panacea or that there are no risks involved. But we see opportunities in them that are mutually beneficial," says Mr Barth.

"On an aggregate basis, the dollar return in these markets is not out of line with the dollar return in developed countries... Market capitalisation as a total is a fraction of contribution to GNP, and one can make a case for growth potential," he adds.

"Investors are becoming more inclined to favour international portfolio diversification, reflecting the view that a geographically diverse portfolio provides an enhanced risk-return relationship," said a spokesman for a leading international bank, though he added:"We have been lucky that most of the funds we have launched have done well. They could just as well have flopped."

Dina Medland

The US market seems to move with hemlines

Of bulls and minis

IT IS all to do with the mini-skirt. Rising hemlines are supposed to be signs that America is feeling good. So are rising stock prices. Skirt lengths went up with stocks in the 1920s and the 1960s, and then fell in the bear markets that followed

This summer the mini-skirt took over the streets of New York and the stock market took off. As knees appeared as far downtown as Wall Street, the index of heavyweight stocks known as the Dow Jones Industrial Average rose 500 points, or 23 per cent. On August 25, it topped out at 2722.42, and then tumbled more than 8 per cent as financial markets all over the US lost their nerve about interest rates. But a month later, the Dow was inching its way back up and the market was as confident as ever.

The triumph of the mini-skirt is as good an explanation as any for this summer's remarkable bull market in stocks. The non-hemline fundamentals have improved a little in the course of the summer but they are still wobbly, at best. And it is quite late in the economic day: the US economy has now been growing for 59 months in succession, a peace-time record.

Still, economic growth, at 3.5 per cent forecast for the third quarter, is solid and fairly well-balanced. The consumer is now weary of borrowing and spending, but the decline in the dollar has revitalised manufacturing and led to an upsurge in capital purchases. Inflation appears to have settled down at a 4.5 to 5 per cent, after surging earlier in the year.

This is as good a platform as any for a surge in corporate profits. After three stagnant years, companies are making good money. This is partly due to the rise in inflation, which tends to boost profit margins before it works through to higher wages and costs. But business is also enjoying the efficiencies brought by the widespread restructuring of corporate America. At the very least, quoted companies should see a decent double-figure increase in after-tax earnings this year

The market has also received help from Washington. The passage last month of measures to reduce the federal budget deficit under the Gramm-Rudman-Hollings Act is encouraging for stock investors.

More important, the Group of Seven industrial countries have more or less promised to try and sustain the dollar at current exchange rates. This is encouragement of a sort to overseas investors, whose activity in the US stock market has been growing. Gross transactions by foreign buyers were $222bn in the first six months, against $277bn in all of 1986 and $158bn in 1985.

So much for the good news. Here is the bad news. The stock market is ignoring furious signals from the bond markets that interest rates are going up. Interest rates have already risen two percentage points this summer, but the stock market has suffered nothing worse than a few weeks of uncertainty. Experience and common sense say that stocks cannot ignore rising rates for ever, and not just because companies' interest costs go up and their profits down.

A bond yielding nearly 10 per cent is quite a competitor for a stock yielding 2.5 per cent. And equities are beginning to look impossibly expensive for the takeover artists, who must borrow at 15 per cent. Takeover activity, which has been one of the mainstays of the market, is down sharply from last year.

The market is also expecting the earth in terms of company profits. Stock prices have risen not only absolutely but as a multiple of expected company earnings. Though profits are growing, they cannot keep up with a demanding market. The stocks of the Standard & Poor's 400 index are now selling for 23 times the companies' most recent annual earnings, as against 17 times this time last year.

If stock values lose touch with corporate earnings, shares degenerate into luxury items as fragile in value as thoroughbred racehorses or SoHo abstracts. This autumn has already seen the market turn its back on one exorbitantly expensive stock-market sector - specialty retailers.

The key to future stock-market performance remains the outlook for interest rates and the complex of issues troubling the bond market: the US trade deficit and the exchange rate of the dollar. Twice already this year - in late March and late August - the foreign exchange and bond markets have been so rattled by the trade deficit that the dollar has tumbled and interest rates jumped. If the dollar must decline further to create new markets for US goods abroad, the long-suffering foreign buyers of US stocks might just lose their patience. And that would be third time unlucky for the US stock market.

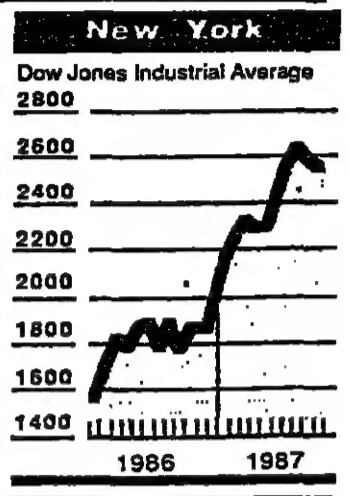
James Buchan

Net purchases of U.S. equities ($m)

Country	First Quarter 1987	Second Quarter 1987
EUROPE	4,682	3,174
Belgium—Luxembourg	180	130
France	1,242	562
Germany	97	(138)
Netherlands	213	476
Switzerland	379	451
United Kingdom	2,419	1,527
Canada	327	62
LATIN AMERICA & CARIBBEAN	1,011	660
Bermuda	(15)	(36)
Netherlands Antilles	491	(2)
ASIA	3,616	4,390
Hong Kong	98	173
Japan	3,495	4,098
"Other Asia" (a)	(270)	(95)
TOTAL ALL COUNTRIES	9,833	8,592

Source: SIA
Research Associate: Rivka Nachoma
(a) Countries included are: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, The United Arab Emirates.

New York



The Third World

Continued from facing page

the risky but cheaper markets of the Third World, where bargains are to be had by those with good local knowledge. Investors seem not to have been unduly deterred by the volatility of these junior exchanges: a stockmarket fall of 35 per cent in Manila, on news of the latest attempted coup, is hardly a pleasant surprise - but then it should hardly be a surprise at all. One broker put it more enigmatically: "It's not a matter of when to buy, but when to sell."

Some of the exchanges overheat very quickly, and speculative frenzies are bound to make this a difficult market. But investors interested in the longer term seem persuaded that the fundamentals are good. Foreign investors are ready to pay quite large premiums for the limited amount of stock they are permitted to hold by sovereignty-conscious governments.

The lack of sophistication of emerging exchanges is seen by some fund managers as one of the attractions. There is little research or analysis, and so plenty of scope for the enterprising outsider to exploit those inefficiencies. As Mr Charles Fowler, a director of John Govett, described the scene recently:

"Stockbrokers' offices often look to our eyes more like the premises of a High Street bookmaker, with customers sitting round following the prices on the boards or screens and occasionally going to the counter to place an order, as though gambling on a horse race."

Many of the new bourses are chaotic, their antique dealing systems stretched to the limit by sudden expansion. But the supply of stock is improving all the time, thanks mainly to lessons learned from the debt crisis.

For some countries, debt-equity swaps have been a useful adjunct to debt rescheduling, and assets have had to be made available. Others are discovering the budgetary benefits of privatisation after years of state mismanagement of industries and utilities. A domestic equity capital market is an attractive alternative to endless dependence on the international banks - even were the banks to resume lending on the old scale. Countries want to harness local capital for industrial development and to lure back the funds that have fled abroad.

Political developments appear to have connived at the boom in emerging markets. In recent years, for example, both Brazil and Argentina have returned to civilian democratic government. The Philippines has replaced its dictator with a still-shaky democracy. South Korea has legitimised an opposition, and even Taiwan is coming out of its shell. The road to democracy is bumpy, but the journey is doing wonders for investor confidence in the countries concerned.

Perhaps these developments are more than mere coincidence. Mr Toby Heale, head of the emerging markets department at James Capel in London, senses the invisible hand of the US State Department at work here. The growth of the emerging markets helped the dollar off the reserve currency hook and was good for the US banks who had become so exposed, he said. "It's a dramatic triumph for American diplomacy. People in these countries are fed up with being poor, especially when in most instances their poverty can be traced to political incompetence."

Despite recent disturbances, investors seem to be taking the view that the political risk in developing country markets is receding, thus making the commercial risk more bearable. Nevertheless, they will have to brace themselves for some speculative shocks, and the possibility that the new liberalism could be put into reverse by local bigwigs who find their profits and markets threatened by the new entrepreneurs.

One professional student of emerging markets, at least, is backing his own analysis. Mr Antoine van Agtmael, deputy director of the IFC's capital markets department, left the Bank last month to set up an investment management group specialising in the raw young stock markets of the developing world.

Christian Tyler

FT writers assess performance and prospects in the other main markets

No rout likely in Tokyo

DESPITE the Tokyo Stock Exchange's well-publicised moves toward internationalisation, it remains as Japanese as the traditional *tatami* mat.

It is true that foreign brokers now sit on the floor and that every month more foreign companies announce that their shares will be listed in Tokyo. But those who try to slot the Japanese exchange into the western mould of equity trading are still making a Sumo-sized mistake.

Tokyo continues to be notorious for defying the fundamentals of stock market research. Seasoned foreign pundits were declaring the market to be ludicrously expensive as long as two years ago, well before the current bull run. With the TSE's average price/earnings multiple pushing up toward 60 earlier this year, many respected outsiders suspected that a crash in world stock markets would be kicked off in Tokyo - when investors realised that industry's prospects no longer merited such lofty ratings.

Indeed foreign investors have been dazzled by the perils and voted with their feet. S G Warburg estimates that foreign holdings had probably fallen to around 4.2 per cent of the total market by August of this year from 8.8 per cent in the spring of 1984.

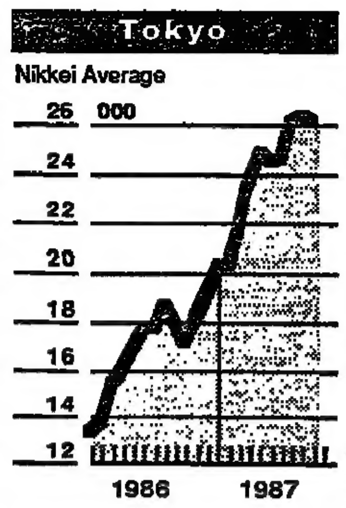
But as recently as early September, the TSE index had scored another record high. Prices fell off somewhat when an obscure chemical company went bankrupt from losses in the bond futures market. Even so, most Japanese brokers and many foreigners in Tokyo do not believe the sky is about to fall in.

There are two threads to this argument: first, that the TSE really is not that expensive or vulnerable when looked at on its own terms; second, that the Government has no intention of allowing a major rout in the equities market to take place.

In common with other markets, Tokyo's share prices have been buoyed by the sheer weight of money available for investment. But beyond that, its public companies are heavily interlocked through an extensive system of cross-holding. According to a recent report on the topic by Warburg in Tokyo, about half the shares of companies listed on the TSE are held by other listed companies. This reduces the number of shares available for trading, limits the positions and distorts yardsticks of measurement, including price-earnings ratios.

When looked at on its own terms, Warburg contends, "the view that Tokyo is a relatively expensive market is highly dubious".

At the same time, other important factors are at play. Despite its increasingly international face, the TSE remains a fairly regulated place. The Ministry of Finance, for example, still strictly controls the amount of money which can be put into equities by the country's huge pension funds. The Y32,000bn Post Office Insurance fund is limited to investing in one or two approved shares. These continued restrictions, along with similar regulations, allow the MOF to maintain some control over the flow of funds into the market. Many argue, as a result, that equities are underowned in Japan.



As a result, some argue, a serious downturn in the market could be partially eased by a governmental nod to allow more funds into the market. And backing up the Government would be Japan's big four stockbrokers, Nomura, Daiwa, Yamaichi and Nikko, who set the pace of market trading by their virtual control of two-thirds of the seats on the TSE.

Tokyo, would not be immune to a worldwide slump in equities. But its particular way of doing things seems to provide some assurance that it is more stable that it looks.

The Government's interest in relative stability is not only to prevent the opening of windows in the top floors of Tokyo's skyscrapers. It also has an ambitious privatisation programme to think of, with big receipts from more shares of NTT, Japan Air Lines and some public sector railways expected in the near future.

And for those who insist on checking the fundamentals, they currently look better than they have for a long time. The argument for selling Japanese shares has been fears over the effects of the rising yen on the economy and industry. But according the most recent statistics, the worst of industry's rationalisation appears to be over.

Carla Rapoport

UK's climb may slacken

UK EQUITIES have been enjoying a prolonged bull phase. The FT-SE 100 index now stands at a level more than three and a half times that at which it started 1981 when the recession was at its depth.

The driving force has been the strong recovery in manufacturing industry as it has emerged from the recession; this has propelled corporate profits growth at a rate much faster than inflation. The benefits have spilt over into the rest of the economy, as strong tax revenues have enabled tax cuts, boosting consumer demand.

The stockmarket boom has been reinforced by a high level of takeover activity, which has not only returned cash to the market in cases of successful bids, but has drawn attention to undervalued assets among companies that have not subsequently been acquired.

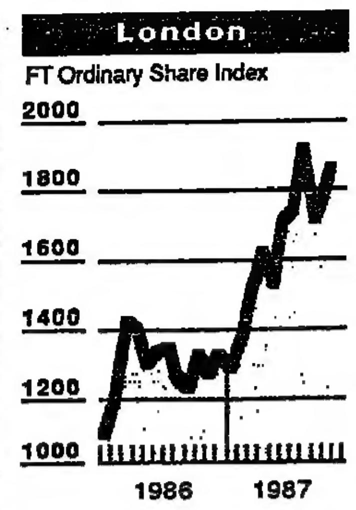
Nor has the rise in the stockmarket been held back by high levels of new stock issues, particularly privatisations of nationalised industries, but also rights issues. UK companies have virtually never been as well capitalised and financially strong as they are now.

Despite the length of the market's run, its pace of growth has accelerated rather than slowed in 1987, as investors have gained confidence from the return of Mrs Thatcher's government. A 10 per cent setback from mid-summer did cause commentators to wonder whether the bull market had ceased, yet much of that reverse has now been made up.

The economy is still booming, with growth of 4 per cent forecast by the Chancellor in the current year. At the same time, inflation has been kept low, arguably through tight monetary policies, but with the help of falling or static commodity prices around the world, especially energy costs. A firm exchange rate in recent months has contributed to low inflation.

Yet there are a few straws in the wind which might indicate a slowing down of growth from now on. Commodity prices are beginning to rise once more. Many of the UK's trading partners are now seeing slower growth, and there is talk of a recession beginning in the US. If so, exporters will find it harder to sell goods overseas, while foreign manufacturers will look to the UK as a more buoyant market to sell to than their own. Already some monthly balance of payments figures have shown a deteriorating trade balance.

There is also concern that the economy is overheating and that inflationary pressures will begin to build up once more. Further tax cuts in next spring's budget are now seen as undesirable by analysts, as they would fuel the consumer boom which is sucking in imports.



The authorities have made it plain that inflation will be resisted at all costs - and showed that they were aware of the pressures by raising UK interest rates by one percentage point in August. This was of greater concern to the bond market than to the equity market. But yields of over 10 per cent on government bonds cannot be ignored forever by the equity market, where the average yield is only 3 per cent. The gap between the two yields is at an historic high, and some feel that it cannot be maintained.

All these concerns might bring an end to the UK bull market, especially if other equity markets around the world also appear to have peaked.

Despite the continued strong economy, the rate of corporate profit growth must begin to slow, perhaps from over 20 per cent in 1987 to between 10 or 15 per cent in 1988. And there seems less and less scope for profit margins to widen further, although there has been a rise in capital investment, much of which should reduce some manufacturers' costs. Wage increases are running ahead of inflation, although much of the difference is made up by increased productivity that cannot be expected to last much longer.

Nor should it be forgotten that nearly half the profits reported by UK quoted companies are made by their overseas subsidiaries, and that if other economies are slowing these profits will be affected too.

It is not possible to predict with certainty that the UK market will continue to rise at the same rate as it has, or indeed at all. Sentiment has turned against many sectors. Yet at many points in the upward course bearish commentators have wrongly predicted its end.

Maggie Urry

Iberia lends a glow to Europe

EUROPEAN EQUITIES have had a mixed year in 1987. Stock markets in the Deutsche Mark bloc - effectively West Germany, Holland and Switzerland - have had a hard time.

By contrast, Spain and Portugal, have been trailblazing favourites for international fund managers looking for value and a "story" behind share buys. France and Italy have proved slightly volatile.

Apart from an optimistic upward blip at the end of the second quarter, the German equity market's dominant characterstic has been its marked underperformance against most other continental bourses. One reason has been the disappointing state of the domestic economy, which will be lucky to achieve 1.5 per cent GNP growth in 1987, despite more bullish government forecasts earlier. The market has occasionally perked up on more upbeat monthly economic statistics, but the lacklustre domestic economy has in general acted as a depressing blanket over German shares.

Upward movements in the DM's value against the dollar have also overshadowed the market, though occasional random upswings in the value of the US currency have boosted shares and confirmed the market's continuing heavy dependence on foreign equity buyers.

Share prices have reacted badly to the stronger DM on a variety of grounds, notably the potential damage to German exporters. Many non-DM investors have also been tempted to take profits boosted by exchange-rate gains, while some newcomers to international investment may have decided to go elsewhere rather than pay a currency "premium".

True, a dearer domestic currency increases the foreign price of German exports. But many manufacturers have been able to maintain turnover thanks to non-price factors like quality and service.

Holland, has shown unsually pronounced signs of its two-tier status. Unilever and Royal Dutch, the country's two big corporate names, which together make up 40 per cent of the market, have done well. But other Dutch shares have been mixed.

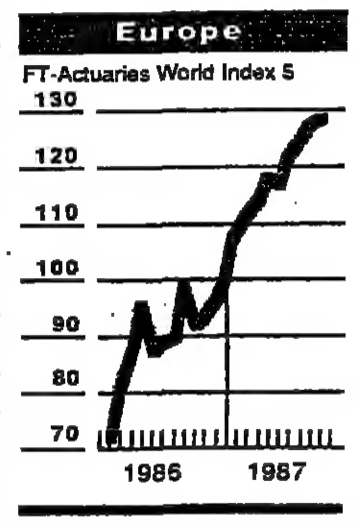
The value of picking the right sector rather than buying the market as a whole has been particularly evident in Switzerland, which has also tended to be dismissed as uninteresting this year. The index reached a new historical high in October, but that was still only a few per cent above its end-1986 level.

Admitedly, banks and insurers, which make up 50 per cent of the Swiss index, lagged badly in the first half of the year on account of depressed first-half earnings prospects. Until recently, the index for bank stocks was still below its end-1986 level. But the picture in Switzerland is very different when seen by sector. Pharmaceuticals - notably Hoffmann La Roche - have done well, as have engineering groups like Sulzer.

Swiss stocks have also been boosted at times by special situations. No one is talking about US-style merger mania in the conservative Swiss market, but deals like the Brown Boveri-ASEA marriage have spurred interest and prompted talk about other such links. Meanwhile, some companies have been buying each others' shares on a pure investment basis, without any aggressive motives.

The Spanish and Poruguese markets, which have boomed, bring smiles to fund mangers' faces. Both have undergone substantial economic and structural changes, while their bourses have experienced an upheaval in terms of foreign interest and surging volume.

The Bolsa Index, which started 1986 at a base of 100, had by August this year breached 300. Optimists predict it will break 400 before the year is out.



Spanish equities' performance has stemmed from a mixture of factors. The market has gained long-term credibility among international investors, thanks partly to the economy's favourable response to full membership of the European Community. Moreover, Spanish earnings growth has risen well above the average thanks to improved margins, which have risen from a low base. The bourse has also been buoyed by special situations.

But perhaps as important as all these elements is the simple fact that Spanish shares have caught investors' imagination with the sharp gains, and Spain has come across as a market with an interesting "story".

Much the same can be said of Portugal, though its market has tended to be seen as even more speculative. The election of a new government with a clear four-year mandate has also helped equities.

French shares have been full of fizz for much of the year after shaking off a spate of gloomy economic statistics. Shares on the Paris bourse have been boosted by a variety of factors, chiefly enormous liquidity. Mutual funds were very large buyers this year, with those benefiting from the "Loi Monory" tax incentives for buying French shares having to place their orders by the end of March.

Moreover, French corporate earnings potential has been excellent so far in 1987. But it is privatisation, the French Government's hallmark and this year's dominant theme on the bourse, which raises some doubts among foreign money managers. Flotations, including Paribas, Societe Generale and Compagnie Generale d'Electricite, have attracted immense investor interest and pulled in vast sums of money, let alone being considerably oversubscribed.

The French Government has now decided to step up the privatisation programme for 1988, with an estimated Ffr90bn worth of shares to be privatised in the coming months. They may sell like hot cakes, but some institutional investors are worried about a potential overhang of paper and wonder whether the sheer weight of new issues might not choke off investment from the rest of the market.

The picture in Italy looks less bright. The country now has a government after a lengthy period of uncertainty, but few fund managers are sanguine about its chances for survival. Fewer still appear to be convinced that it can adequately address the country's economic problems. Sentiment about the bourse, which has lost its dazzle after the heady days of 1985 and the first half of 1986, is cautious at best.

Haig Simonian